A Report
to the
Montana
Legislature

Financial-Compliance Audit

Montana Board of Investments

For the Fiscal Year Ended June 30, 2021

January 2022

Legislative Audit Division

20-04B

Financial-Compliance Audits

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2019, was issued March 30, 2020. The Single Audit Report for the two fiscal years ended June 30, 2021, will be issued by March 31, 2022.

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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

January 2022

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report of the Montana Board of Investments for the fiscal year ended June 30, 2021. Included in this report are financial statements of the board's Unified Investment Program and Enterprise Fund Program. We issued unmodified opinions on the financial statements for each of these programs.

We performed this audit of the board in compliance with the Montana Constitution and state law. Our audit work included analyzing financial statements, note disclosures, and required supplementary information, as well as examining the underlying financial activity and testing selected control systems. The report does not contain any recommendations to the board.

We thank the members of the board and their staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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Figures and Tables

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Appointed and Administrative Officials

	Name	Representative of	City	Term Expires January 1
Montana Board of Investments	Karl Englund, Chair	Law	Missoula	2023
	Jack Prothero, Vice Chair	Financial Community	Great Falls	2025
	Mark Barry	Financial Community	Helena	2025
	Teresa Olcott Cohea	Financial Community	Helena	2023
	Diane Fladmo	Labor	Helena	2023
	Jeff Meredith	Small Business	Kalispell	2025
	Bruce Nelson	Agriculture	Bozeman	2023
	Maggie Peterson	PERS	Anaconda	2025
	Vacant	TRS		
	Ryan Lynch, Senate Liaison			
	Ken Walsh, House of Representatives Liaison			

Administrative Officials

Dan Villa, Executive Director

Peggy MacEwen, Deputy Director

Jon Putnam, Chief Investment Officer

Julie Feldman, Financial Manager

For additional information concerning the Montana Board of Investments, contact:

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Helena, MT 59620-0126

e-mail: dvilla@mt.gov

Financial-Compliance Audit 20-04B January 2022

Montana Legislative Audit Division

Montana Board of Investments

For the Fiscal Year Ended June 30, 2021

Background

Article VIII, Section 13 of the Montana Constitution requires the Legislature to provide for a Unified Investment Program (UIP) for public funds, and §17-6-201, MCA, requires the Montana Board of Investments (board) to administer the program. The board has sole authority to invest public retirement system funds and state compensation insurance fund assets, in accordance with state law and the Montana Constitution. The UIP is comprised of both internal and external investment pools as well as Separately Managed Accounts (SMA) for state agencies.

In addition, the board manages the investments of state agencies and certain local governments, such as cities, counties, and school districts.

The board also administers the state's Municipal Finance Consolidation Act (MFC) and the Economic Development Bond Act (EDB) programs which comprise the Enterprise Fund Program.

The Unified Investment Program's net position increased by approximately $3.4 billion. Most of the increase was in the Consolidated Asset Pension Pool (CAPP). CAPP's rate of return was over 28% in fiscal year 2021. Domestic equity, private investments, international equity, real assets, and non-core fixed income all had strong market returns. The state spent most of the CARES funds during fiscal year 2021, so cash and cash equivalents in SMA decreased between years by approximately $1 billion. The board's investments at June 30,2021, included $453.2 million of American Rescue Plan Act money given to the State of Montana by the federal government. Short-term Investment Pool (STIP) activity (purchases, sales, and ending balances) also increased in fiscal year 2021, because STIP participants (state agencies and local governments) had more access to federal money from the CARES Act.

AUDITOR'S OPINION:
Unified Investment Program: UNMODIFIED
Enterprise Fund Program: UNMODIFIED

This means you can rely on the information in the financial statements and notes included in this report.

For the full context of the board's financial activity, see the financial statements and notes beginning on pages A-5 and A-47.

RECOMMENDATIONS:
In this report, we issued the following recommendations:
To the board: 0
To the legislature: 0

(continued on back)

For the full report or more information, contact the Legislative Audit Division.

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(704) 430-3930

In this report, we determined the implementation status of recommendations in the prior audit:
Fully Implemented: 1
Partially Implemented: 0
Not Implemented: 0

SUMMARY OF AUDIT WORK:
Our audit efforts over the board's UIP focused primarily on cash and cash equivalents and investment balances, as well as purchases and sales by participants, the net change in fair value of investments, dividend and interest income, and income distributions to participants.

Audit work over the board's Enterprise Fund Program focused primarily on cash and cash equivalents, investments, notes and loans receivable, and bonds payable balances and their related cash flows.

For both programs, we also analyzed the financial statements, note disclosures, required supplementary information, and examined the underlying financial activity.

REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):
In this report, we identified the following:
Material Weaknesses in Internal Control: 0
Significant Deficiencies in Internal Control: 0
Material Non-Compliance: 0
Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

Chapter I – Introduction and Background

Introduction

We performed a financial-compliance audit of the Montana Board of Investments (board) for the fiscal year ended June 30, 2021. The objectives of the audit were to:

1. Obtain an understanding of the board's internal control systems to the extent necessary to support our audit of the financial statements, and, if appropriate, make recommendations for improvements in management and internal controls of the board.
2. Determine whether the board's Unified Investment Program financial statements present fairly the fiduciary net position and the changes in fiduciary net position of the program.
3. Determine whether the board's Enterprise Fund Program financial statements present fairly the net position, changes in net position, and cash flows of the program.
4. Determine whether the board complied with selected state laws and regulations.
5. Determine the implementation status of the prior audit recommendation.

Audit work over the board's Unified Investment Program (UIP) focused primarily on cash and cash equivalents and investment balances, as well as purchases and sales by participants, the net change in fair value of investments, dividend and interest income, and income distributions to participants. We analyzed the financial statements, note disclosures, required supplementary information, and examined the underlying financial activity. As part of this work, we compared investment-related transactions and balances recorded by the board to the reports of its custodial bank. The board charges the bank with the safekeeping of the investment assets. In this role, the bank settles purchases and sales of securities, collects information regarding the assets and related income, and provides information and support to the board for its administration of the UIP. We also tested selected control systems and state laws related to the program.

Our audit efforts over the board's Enterprise Fund Program (EF) focused primarily on cash and cash equivalents, investments, notes and loans receivable, and bonds payable balances and their related cash flows. We analyzed the financial statements, note disclosures, required supplementary information, and examined the underlying financial activity. As part of this work, we performed a sample of new loans issued during the audit period. We also tested selected control systems and state laws related to the program.

Background

State law allocates the board to the Department of Commerce for administrative purposes. The board employs an executive director and chief investment officer who in turn hire and manage staff. The staff members advise the board, implement board decisions, and perform daily investment, loan management, and record-keeping functions.

To manage the UIP, the board has created investment pools that operate similarly to mutual funds. The board establishes investment policies for each pool, outlining the investment strategy for the pools. The board's objectives for each pools and information on the pool participants are presented below:

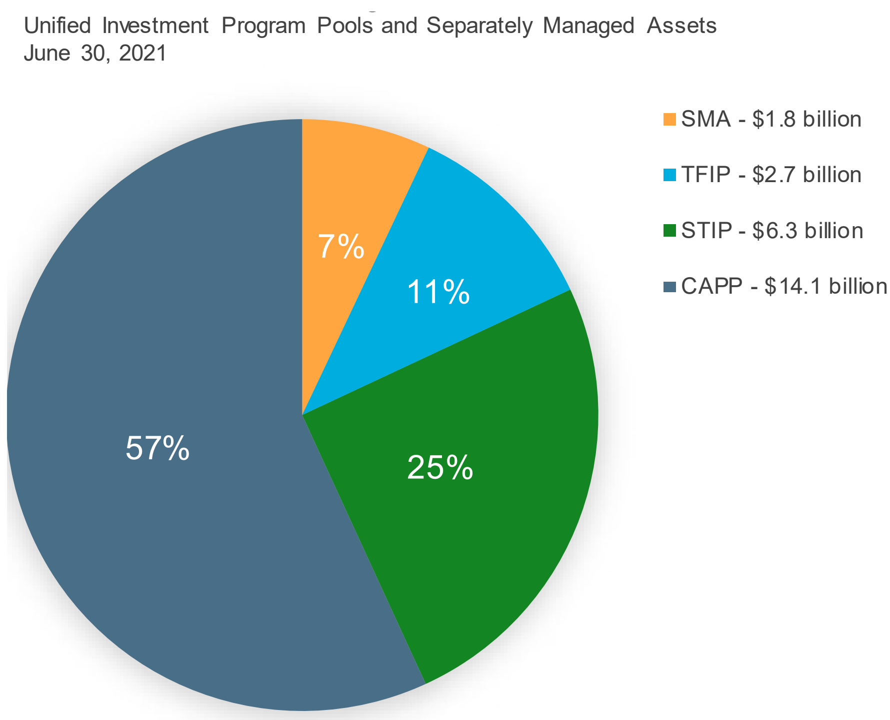
- **Short-Term Investment Pool (STIP):** The pool is designed to preserve capital and maintain high liquidity. State agencies, the state's retirement systems, and local governments are eligible to participate in STIP.
- **Trust Funds Investment Pool (TFIP):** The pool is designed to provide participants exposure to a portfolio of diversified income-producing assets. State agencies and local governments meeting eligibility criteria may participate in TFIP.
- **Consolidated Asset Pension Pool (CAPP):** The pool is designed to achieve a high level of investment performance that is compatible with its risk tolerance and prudent investment practices. The board maintains a long-term perspective in formulating and implementing investment policies for the pool and in evaluating investment performance within the pool. CAPP participants are limited to the state's retirement systems.

In addition to these pools, the board manages direct investments in fixed income securities, equity index funds, and commercial loans for approximately eight state agencies. These investments are reported collectively in the board's UIP financial statements as Separately Managed Accounts (SMA).

Figure 1 below and Table 1 (see page 3) present information on the investments managed in the pools and SMA at June 30, 2021. For more information on the investments managed by the board, refer to the note disclosures beginning on page A-14.

Figure 1

Total Investments Managed



Source: Compiled by the Legislative Audit Division from board accounting records.

Table 1
Unified Investment Program Pool Investments by Type
June 30, 2021
(in thousands)

	STIP	TFIP	CAPP	SMA
Cash and Cash Equivalents	$3,234,299	$9,249	$176,254	$1,873
Fixed Income Investments	$3,082,075	$2,197,366	$3,056,192	$1,252,131
Domestic Equity Investments			$4,856,339	$208,084
International Equity Investments			$2,498,920	
Comingled Equity Index Funds				
Direct Real Estate Holdings		$21,104		
Mortgages and Loans			$2,021	$192,235
Private Equity Partnerships			$2,063,108	
Core Real Estate Partnerships		$347,626	$335,046	$98,139
Non-Core Real Estate Partnerships		$58,127	$684,558	
Natural Resources			$341,822	
Real Estate High Income Fund		$50,207	$157,928	
Total	**$6,316,374**	**$2,683,680**	**$14,172,188**	**$1,752,462**

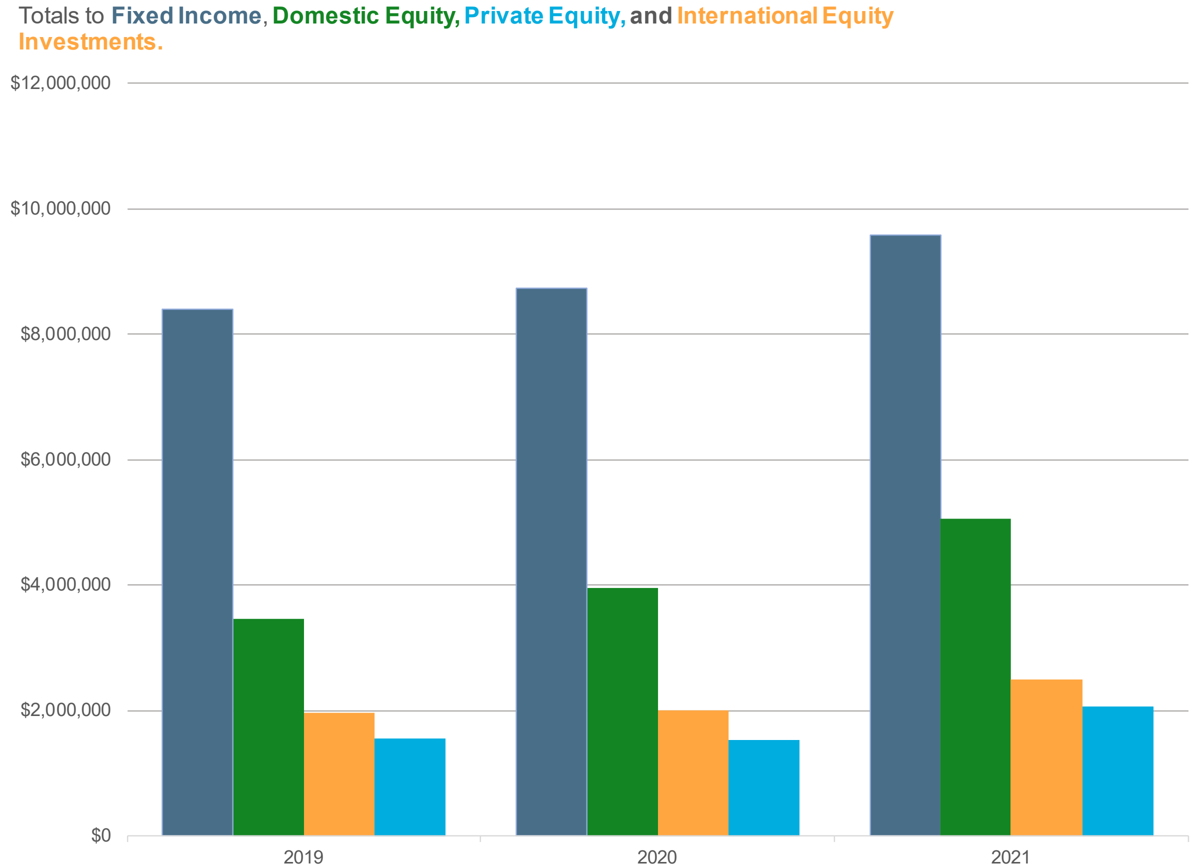
Source: Compiled by the Legislative Audit Division based on board records.

Overall, the types of investments reported for each pool in the table above have not changed significantly over the last few years, except for the Cash and Cash Equivalents in the SMA. As of June 30, 2020, there was over a billion dollars in Coronavirus Aid, Relief, and Economic Security (CARES) Act funds invested by the board (on behalf of the state), which was primarily held in Cash and Cash Equivalents in the SMA. The state spent most of the CARES funds during fiscal year 2021, so cash and cash equivalents in SMA decreased between years by approximately $1 billion. The board's investments at June 30, 2021, included $453.2 million of American Rescue Plan Act money given to the State of Montana by the federal government. STIP activity (purchases, sales, and ending balances) also increased in fiscal year 2021, because STIP participants (state agencies and local governments) had more access to federal money from the CARES Act.

In Figure 2 (see page 4), the top four investment types of the board's portfolio (excluding cash equivalents) are summarized for the last three years. Overall, the board has increased their investments in Fixed Income and Domestic Equity while staying fairly consistent with investments in International Investments and Private Equity Partnerships.

Figure 2

Top Four Investment Types by Fiscal Year of the Unified Investment Program



Source: Compiled by the Legislative Audit Division from board accounting records.

The board also administers the state Municipal Finance Consolidation (MFC) Act and Economic Development Bond Act (EDB) programs, comprised of the Enterprise Fund Program. The MFC Act authorizes the board's ability to issue up to $190 million in bonds. The board's Intermediate Term Capital Program (INTERCAP) bonds, issued under the MFC, are used to provide loans to eligible Montana governments to finance capital expenditures for up to 15 years. Under the MFC and EDB programs, the board also provides eligible Montana governments with access to financing through the issuance of conduit (no-commitment) debt. The board issues debt to benefit a third party, the party responsible for the debt. Conduit debt is generally tax exempt. It is primarily a way for not-for-profit organizations to obtain financing at tax-exempt rates, although for-profit and government organizations may also use conduit debt. The board's conduit debt is issued on behalf of Montana school districts. The board has no obligation for the debt but discloses the activity in the notes to the financial statements.

The board publishes an annual report detailing the UIP and Enterprise Fund Program activity for the year. This report is available on the board's website or by contacting the board.

Board Programs Related to the CARES Act

For fiscal year 2021, the governor established the Montana Loan Deferment Program and the Montana Working Capital Program using part of the CARES money. The purpose of the grant programs is to help Montana businesses that have incurred economic injury due to the COVID-19 pandemic by providing payments to lenders so borrowers can defer principle and interest payments on existing loans or establish new working capital loans. The board administered the programs with the Departments of Revenue and Transportation. Through these programs, the board approved 1,570 applications and awarded approximately $70 million in loans. This activity will not be presented on either the UIP or EF financial statements in fiscal year 2021. The activity takes place in the Department of Commerce accounting records; see the Department of Commerce financial-compliance audit (21-16) for more information. The State's financial statements also present the CARES Act activity.

Prior Audit Recommendation

Our prior report contained one recommendation to complete telework agreements as required by state policy and reimburse employees for actual costs associated with working from home instead of increasing compensation. Since April 2021, the board no longer has staff working from home regularly, and they have stopped paying staff an additional amount to offset those costs. As a result, we consider this recommendation fully implemented.

Independent Auditor's Report and Unified Investment Program Financial Statements

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction
We have audited the accompanying Statement of Fiduciary Net Position of the Montana Board of Investments' (board) Unified Investment Program as of June 30, 2021, the related Statement of Changes in Fiduciary Net Position, for the fiscal year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Board of Investments' Unified Investment Program as of June 30, 2021, and the changes in fiduciary net position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed on page A-12 in the notes to the financial statements, the Montana Board of Investments' Unified Investment Program financial statements are intended to present the financial position and changes in financial position of only the portion of the financial reporting entity of the State of Montana that are attributed to the transactions of the Unified Investment Program at the board. They do not purport to, and do not present fairly the financial position of the State of Montana as of June 30, 2021, or the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United State of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page A-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Combining Statement of Fiduciary Net Position on pages A-37 and A-38 and the Combining Statement of Changes in Fiduciary Net Position on pages A-39 and A-40 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures,

including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2021, on our consideration of the board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 7, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis for the Unified Investment Program (UIP) of the Board of Investments (the Board) of the State of Montana, (the State), is presented as an introduction to the financial statements of the UIP. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison to the prior year's activities and results.

In addition to the UIP, the Board also administers an Enterprise Fund to account for its programs created by the Municipal Finance Consolidation Act and the Economic Development Bond Act. This section of the report represents only the UIP. The Enterprise Fund financial statements are presented separately.

FINANCIAL HIGHLIGHTS

The fiduciary net position of the UIP increased to approximately $24.9 billion in comparison to a beginning fiduciary net position of approximately $21.6 billion. With respect to the underlying components of the UIP:

- Consolidated Asset Pension Pool (CAPP) increased in fiduciary net position due to investments in most asset classes, including domestic equity, international equity, private investments, real estate, real assets, and non-core fixed income and a combined rate of return for the period exceeding 28%;
- The Trust Funds Investment Pool (TFIP) realized an increase in fiduciary net position due to an annual investment return of 1.53%;
- The Short-Term Investment Pool (STIP) increase in value was primarily driven by the contributions of additional capital into the pool and a modest annual return of .2%; and
- The Separately Managed Accounts (SMA) decrease in fiduciary net position was primarily due to expenditures of the Coronavirus Aid, Relief, and Economic Security (CARES) Act funds invested by the State in the UIP, beginning in the fiscal year ending June 30, 2020.

Below is a summary of the Changes in Fiduciary Net Position by pool and for the SMA from the prior to current fiscal year:

CHANGES IN FIDUCIARY NET POSITION FOR POOL AND SMA PARTICIPANTS (in thousands)	For Fiscal Years Ending June 30, 2021	June 30, 2020
Consolidated Asset Pension Pool (CAPP)	$ 2,738,755	$ 184,314
Trust Funds Investment Pool (TFIP)	96,914	136,395
Short Term Investment Pool (STIP)	1,781,937	557,499
STIP included in investment pools	(56,439)	(139,035)
Separately Managed Accounts (SMA)	(1,182,829)	1,208,009
Total Change in Net Position by Pool and SMA participants	**$ 3,378,338**	**$ 1,947,182**

The investment return net of fees of UIP is best characterized by describing the investment returns of the underlying pools due to the different goals of each pool.

	1-YEAR TOTAL RETURN	
POOL	2021	2020
CAPP	28.1%	2.8%
TFIP	1.5%	8.0%
STIP	0.2%	1.6%

The investment returns are based on data made available by the custodial bank. Performance calculations were prepared using time-weighted rates of return and are net-of-fees. SMA investment returns vary depending on the account specific investment allocations and the cash flows in and out of the account during the period.

OVERVIEW OF THE FINANCIAL STATEMENTS

The UIP is comprised of a combination of one internal investment pool, two external investment pools and the SMA to meet the financial goals and expectations of the state and local government agencies and entities which entrust these funds to the Board. The CAPP is an internal investment pool, and TFIP and STIP are external investment pools. The amounts reported within these financial statements become part of the governmental, proprietary, and fiduciary fund categories of the State's Annual Comprehensive Financial Report (ACFR), which is separately issued from these financial statements.

The SMA investments are combined for reporting purposes in the SMA portion of the UIP. SMA participants include the State Treasurer's Cash Fund, state agency insurance reserves and other state agencies. SMA participation is at the discretion of the Board staff for those state agencies allowed to participate in the UIP.

The financial statements and footnotes follow this section of the report. The **STATEMENT OF FIDUCIARY NET POSITION** provides information on the types of investments, other assets, and liabilities of the pools and SMA, as of the fiscal year ended June 30, 2021.

The **STATEMENT OF CHANGES IN FIDUCIARY NET POSITION** provides information on investment performance and other increases (additions) and decreases (deductions) in the fiduciary net position of the pools and SMA, for the fiscal year ended June 30, 2021. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board (GASB).

The **NOTES TO THE FINANCIAL STATEMENTS** provide additional information that is essential to a full understanding of the data provided in the financial statements. Additional supplementary information presented is not required by GAAP but is included for transparency.

FINANCIAL ANALYSIS

FIDUCIARY NET POSITION The fiduciary net position is the accumulated excess of assets over liabilities from the inception of the UIP. As of June 30, 2021, the UIP had total fiduciary net position of approximately $24.9 billion in comparison to a beginning fiduciary net position of approximately $21.6 billion. The following is a condensed Statement of Fiduciary Net Position of the UIP as of June 30, 2021 as compared to the prior year:

FIDUCIARY NET POSITION HELD IN TRUST FOR POOL AND SMA PARTICIPANTS (in thousands)	June 30, 2021	June 30, 2020
Assets		
Total investments	$ 24,924,703	$ 21,571,968
Receivables and other assets	250,953	252,235
Total assets	**25,175,656**	**21,824,203**
Liabilities		
Payables and other liabilities	237,296	264,181
Total liabilities	237,296	264,181
Fiduciary net position	**$ 24,938,360**	**$ 21,560,022**

As of June 30, 2021, most of the assets were composed of investments at either fair value or at net asset value (NAV) in accordance with GAAP. There is a large measure of unpredictability in these balances from year-to-year due to constant changes in the value of the investments.

The receivables and other assets include amounts for broker receivable for securities sold but not settled, accrued interest and dividends and collateral held for securities lending transactions. The payables are similar, but also include income due to participants.

SMA MONTANA MORTGAGES AND LOANS, TAX ABATEMENT, BOND, AND LOAN GUARANTEES The SMA portfolio includes mortgages and loans funded by the Coal Severance Tax Trust Fund as authorized by statute. The carrying value of the mortgages and loans was approximately $192 million as compared to approximately $204 million as of the end of the prior year.

The SMA also includes a tax abatement program by statute. The eligible abatements are administered by local governments but approved by the Board. Various eligibility requirements are in statute to afford the business an interest rate reduction on an infrastructure loan. For the fiscal year ended June 30, 2021, the amount claimed as credits against various forms of state taxation was approximately $5.3 million, as compared to approximately $14.0 million in the prior fiscal year. For further detail, see Note 10.

Finally, various bond and loan guarantees are provided from STIP, TFIP, the Coal Severance Tax Trust, and the State Treasurer's Cash Fund to the Enterprise Fund for exposure to Intermediate Term Capital Program (INTERCAP) bond issues and the Montana Facility Finance Authority. As of the end of the fiscal year, the Board has not had to perform on the guarantees, despite the volatility of the economy. The amounts are merely commitments of the Board. STIP and TFIP are external investment pools managed by the Board. Both the Coal Severance Tax Trust Fund and the Enterprise Fund are part of the primary government for the State. The Board manages the State Treasurer's Cash Fund which consists of fund balances of all the funds of the State whose investment earnings are permitted by law to flow to the State's General Fund. As of the fiscal year ended June 30, 2021, the balance of guarantee activity was approximately $191 million as compared to approximately $179 million at the end of the prior fiscal year.

CHANGES IN FIDUCIARY NET POSITION The change in fiduciary net position is the annual additions and deductions of the UIP. As of June 30, 2021, the UIP had change in fiduciary net position of approximately $3.4 billion in comparison to the prior year change of approximately $1.9 billion. The following is a condensed Statement of Changes in Fiduciary Net Position of the UIP as of June 30, 2021 as compared to the prior year:

CHANGES IN FIDUCIARY NET POSITION HELD IN TRUST FOR POOL AND SMA PARTICIPANTS (in thousands)	For Fiscal Years Ending June 30, 2021	June 30, 2020
Additions		
Purchases by participants	$ 13,477,346	$ 11,502,341
Investment earnings	3,452,102	745,362
Investment costs	(66,336)	(56,423)
Other investment expenses	(21,969)	(11,417)
Net investment income	3,363,797	677,522
Securities lending income, net of expense	1,200	1,005
Total additions	**16,842,343**	**12,180,868**
Deductions		
Sales by participants	13,332,604	10,050,569
Income distributions to participants	131,401	183,117
Total deductions	**13,464,005**	**10,233,686**
Change in fiduciary net position	**3,378,338**	**1,947,182**
Fiduciary net position, beginning of year	**21,560,022**	**19,612,840**
Fiduciary net position, end of year	**$ 24,938,360**	**$ 21,560,022**

PURCHASES, SALES, AND DISTRIBUTIONS Purchases, sales, and distributions to participants vary annually based upon activity of the participants and their cash flow needs.

INVESTMENT EARNINGS – ECONOMIC HIGHLIGHTS Returns across asset classes were strong in fiscal year 2021 as risk assets rebounded from the impact of the pandemic driven by global central bank support and government stimulus. Domestic Equity (45.71%), Private Investments

(41.55%), International Equity (37.65%), Real Assets (20.42%), Non-Core Fixed Income (13.19%), Real Estate (8.62%) and Cash (0.19%) all posted positive returns. Core Fixed Income (-0.15%) was the only asset class to post slightly negative returns as low yields suppressed returns during the fiscal year.

INVESTMENT COSTS Investment fees include the flows to manage the UIP, custodial bank fees, and external manager fees. The flows to manage the operations of the UIP, including general and investment costs, are set by the State Legislature biennially and approved by the Board as part of an annual budget. Custodial banking fees are paid through a statutory appropriation and external manager fees are paid directly from the accounts they manage. These flows comprise the 'overhead' of the UIP. For the fiscal year ending June 30, 2021, these flows represented 0.27% of ending fiduciary net position (or 27 basis points) versus 0.26% of fiduciary net position (or 26 basis points) at the end of the prior year. The primary component relates to external manager fees, which the Board continues to aggressively monitor.

The net of all the flows, resulted in a $3.4 billion increase to fiduciary net position for the fiscal year ended June 30, 2021. This compares to an increase of approximately $1.9 billion in the prior year.

OPERATIONAL HIGHLIGHTS

Board operations continued to be impacted by the COVID-19 pandemic. In addition to ensuring the personal safety of staff in accordance with State and national guidelines, several irregular transactions occurred during the period because of the outbreak and subsequent recovery. The Board continued investments of the $1.25 billion in Coronavirus Aid, Relief, and Economic Security (CARES) Act funds from the federal government on behalf of the State of Montana as well as received the first tranche of funds under the American Rescue Plan Act (ARPA) of $453.2 million. Guidance is pending from the United States Treasury on the use of investment earnings of ARPA funds. Similar grant programs historically have allowed such funds to be used for programmatic purposes (known as program income).

ECONOMIC FACTORS AND CURRENTLY KNOWN FACTS THAT MAY IMPACT UIP'S OPERATIONS IN THE FUTURE

Going forward, some of the challenges facing the markets include: the ongoing global pandemic, domestic and geopolitical tensions, historically low interest rates, and uncertain inflation expectations.

Despite the challenges, MBOI continues to pursue attractive opportunities in the market that are additive to the portfolio over an extended period. We expect periods of extreme market volatility and continually mitigate risks to meet the liquidity needs of the pension plans. MBOI believes that disciplined execution of our investment process will help us achieve the long-term objectives of the pension plans.

Requests for Information and Transparency. This financial report is designed to provide a general overview of the UIP's operations. Questions concerning any of the information contained in this report or requests for additional information about the Board's operations, should be addressed to the Board at 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, Montana 59620-0126. The Board may be reached by phone at 406.444.0001 or TDD at 406.841.2702. Board Meeting agenda and minutes are posted at http://investmentmt.com/Board/Meetings.

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MONTANA UNIFIED INVESTMENT PROGRAM
STATEMENT OF FIDUCIARY NET POSITION
AS OF FISCAL YEAR ENDING JUNE 30, 2021
(in thousands)

Assets	
Investments	
Cash and cash equivalents held at custodial bank	$ 3,421,675
Investments at cost	192,235
Investments at fair value	21,310,793
Total investments	24,924,703
Securities lending cash collateral	148,573
Receivables	
Broker receivable for securities sold but not settled	11,812
Dividend and interest receivable	90,568
Total receivables	102,380
Total assets	25,175,656
Liabilities	
Payables	
Broker payable for securities purchased but not settled	65,774
Income due participants	14,703
Other payables	2,995
Administrative fee payable	5,251
Total payables	88,723
Securities lending obligations	148,573
Total liabilities	237,296
Net position held in trust for pool and Separately Managed Accounts (SMA) participants	$ 24,938,360

The accompanying notes are an integral part of these financial statements.

MONTANA UNIFIED INVESTMENT PROGRAM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR FISCAL YEAR ENDING JUNE 30, 2021
(in thousands)

Additions	
Purchases by participants	$ 13,477,346
Net investment earnings	
Investment earnings	
Net increase (decrease) on fair value of investments	3,010,068
Dividend/interest income	441,178
Other investment income	856
Investment earnings	3,452,102
Investment costs	(66,336)
Other investment expenses	(21,969)
Short Term Investment Pool reserve expense	-
Net investment income	3,363,797
Securities lending income	1,502
Securities lending expense	(302)
Net securities lending income	1,200
Total additions	16,842,343
Deductions	
Sales by participants	13,332,604
Income distributions to participants	131,401
Total deductions	13,464,005
Change in net position	3,378,338
Net position held in trust for pool and SMA participants - beginning of year	21,560,022
Net position held in trust for pool and SMA participants - end of year	$ 24,938,360

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2021

These financial statements present only the activity of the Unified Investment Program (UIP) as managed by the Board of Investments (the Board). The financial information pertaining solely to the UIP administrative operations of the Board can be found in the Investment Division internal service fund contained within the State of Montana's (the State) Annual Comprehensive Financial Report (ACFR). The external participation for Short-Term Investment Pool (STIP) and the Trust Fund Investment Pool (TFIP) is reported as Investment Trust Funds within the State's ACFR. The State's ACFR is available from the Montana Department of Administration's State Financial Services Division website http://sfsd.mt.gov/SAB/acfr; at Room 255 Mitchell Building, 125 North Roberts Street, PO Box 200102, Helena, MT 59620-0102 or at 406.444.3092.

1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF FUNDS

The UIP is, by statute, comprised of involuntarily participating state funds, including pensions, trusts, insurance, operating funds and by statute voluntarily participating local government funds. To facilitate the management of the UIP, the Board uses a combination of investment pools and Separately Managed Accounts (SMA) to meet the financial goals and expectations of the agencies and entities which entrust these funds to the Board. The balances within these financial statements become part of the participant's applicable fund category or component unit of the State's ACFR.

BASIS OF ACCOUNTING

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting and have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board (GASB).

CASH AND CASH EQUIVALENTS HELD WITHIN POOLS

Cash and cash equivalents generally are short-term, highly liquid investments with maturities of three months or less at time of purchase. The Consolidated Asset Pension Pool (CAPP), the TFIP, the STIP, and SMA hold cash and cash equivalents that are measured at cost.

VALUATION OF INVESTMENTS

Investments reported at fair value are on a trade date basis. Quoted market prices, when available, have been used to value investments. The fair values for securities that have no quoted market price represent estimated fair value. Alternative investment securities are valued using the most recent estimates of fair value from the investment managers. Fair value measurements are reviewed monthly, and third-party valuations are reviewed for reasonableness and compliance with approved price source authorization policy. Additional information on how the Board reports fair value measurements can be found in Note 6 - Fair Value Measurement.

REVENUE RECOGNITION

Unrealized gains and losses are included as a component of investment income in the Statement of Changes in Fiduciary Net Position. Unrealized gains and losses are computed based on changes in the fair value of investments held from the beginning of the year, but unsold at the fiscal year-end. The net change in fair value of investments also consists of the realized gains or losses. Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date.

INVESTMENT COSTS

The State Legislature sets management fees the Board charges. The maximum fee is set at the aggregate level at the beginning of each fiscal year. The Board allocates the aggregate fees across the pools and SMA. Custodial bank fees are paid by a statutory appropriation from the State's General Fund. The Board allocates custodial bank fees across the pools and SMA and deposits the funds required to pay the fee in the general fund. The State Treasurer then pays the monthly custodial bank fees from the General Fund. External manager fees are paid directly from the accounts they manage.

Investment fees charged to each pool and the SMA investments are shown in the following table:

TOTAL FISCAL YEAR 2021 INVESTMENT COSTS
(in thousands)

	Board	Custodial Bank	External Managers	Total	Investment Fee Ratio
Consolidated Asset Pension Pool (CAPP)	$ 5,241	$ 1,255	$ 53,945	$ 60,441	0.42%
Trust Funds Investment Pool (TFIP)	427	134	2,534	3,095	0.11%
Short Term Investment Pool (STIP)	574	280	-	854	0.01%
Separately Managed Accounts (SMA)	1,012	130	804	1,946	0.11%
Total	$ 7,254	$ 1,799	$ 57,283	$ 66,336	0.27%

SECURITIES LENDING

The collateral received under securities lending agreements where the pools and SMA can spend, pledge, or sell collateral without borrower default is included in the Statement of Fiduciary Net Position. Liabilities resulting from these transactions are also included in the Statement of Fiduciary Net Position. Costs associated with the securities lending transactions, including broker commissions and lending fees paid to custodians are reported as components of investment expenses in the Statement of Changes in Fiduciary Net Position. Securities lending income reported for the fiscal year was $1.5 million, and expenses associated with securities lending were $0.3 million. For further detail, see Note 4 - Securities Lending.

PURCHASES AND SALES BY PARTICIPANTS AND INCOME DISTRIBUTIONS

Purchases and sales by participants are recorded when received or paid. TFIP and STIP participants receive monthly income distributions. SMA distributes income when received. SMA distributable income is total net investment earnings less the net increase (decrease) on the fair value of investments. TFIP and STIP distributable income is total net investment earnings less the net increase (decrease) on the fair value of investments not attributable to amortization. TFIP and SMA distributable income also includes net securities lending earnings. CAPP retains all its investment earnings; therefore, it does not distribute to participants.

USE OF ESTIMATES

In conformity with GAAP, management may make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from estimated amounts.

Certain reclassifications have been made to the current year presentation from the prior year. These reclassifications had no effect on previously reported change in fiduciary net position or fiduciary net position held in trust for pool participants.

REGULATORY OVERSIGHT

The Board was created by the State Legislature to manage the UIP established by the State Constitution. The Board is not registered with the U.S. Securities and Exchange Commission as an investment company.

POOL PARTICIPANT UNITS

Pool units are purchased and sold in the same manner as individuals investing in mutual funds. Therefore, the pool unit price is computed based on market prices on securities in the pool plus any additional assets, minus liabilities. The STIP participants purchase and sell units at $1 per unit, at the participant's discretion. Additional information on STIP can be found in Note 12 – STIP Reserve. CAPP and TFIP units are purchased and sold based on the prior day ending price. SMA direct investments are purchased and sold at their respective fair market values at the dates of transaction. CAPP and TFIP units and SMA direct investments are purchased and sold at the discretion of Board investment staff based on asset allocations and Investment Policy Statements (IPS) approved by the Board. Individual investments in the pools are not specifically identified to the respective participants. Gains and losses on the sale of CAPP and TFIP participant units are reflected at the participant level. SMA is not a pool; therefore, there are neither units outstanding, nor unit values calculated.

2. INVESTMENT COMMITMENTS

Investments in alternative equity are usually made via limited partnership agreements that involve many limited partners and a general partner who is responsible for all investment decisions. The limited partners make an original commitment, after which capital is called as needed by the

general partner to make investments. These agreements will usually last for a minimum of 10 years. The following table shows the remaining Board commitments of active funds to alternative equity managers.

COMMITMENTS TO FUND MANAGERS AS OF JUNE 30, 2021
(in thousands)

	Original Commitment	Commitment Remaining
Private Investments	$ 3,429,448	$ 1,005,805
Real Assets	748,526	340,045
Real Estate	2,686,429	789,773
Total	$ 6,864,403	$ 2,135,623

3. INVESTMENT RISK DISCLOSURES

CUSTODIAL CREDIT RISK (CASH AND CASH EQUIVALENTS AND INVESTMENTS HELD AT CUSTODIAL BANK)

Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Board will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Per policy, the Board's custodial bank must be rated at a minimum at the 6th highest investment grade rating by at least two Nationally Recognized Statistical Rating Organizations (NRSROs) on an annual basis.

As of June 30th, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for the Montana Board of Investments and held in the possession of the Board's custodial bank. The equity index funds, securities held at the State's depository bank, real estate, mortgage, and loan investments were purchased and recorded in the Board's name. Commingled fund investments are registered in the name of the Montana Board of Investments. Therefore, the Board is not subject to custodial credit risk.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributable to the magnitude of any single investment per issuer name. Investments explicitly guaranteed by the U.S. Government are excluded from the concentration of credit risk requirement. Concentration of credit risk is addressed within all IPSs as set by the Board. Please refer to Note 5 – Summary of Investment Policy – Legal and Contractual Provisions for further detail.

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Except for U.S. Government securities, the pools and SMA fixed income instruments have credit risk as measured by NRSRO ratings. Credit risk is contemplated for each individual portfolio in the IPS. Credit risk is managed by constraining portfolio purchases around investment grade NRSRO ratings as appropriate. The U.S. Government guarantees its securities directly or indirectly. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit risk. Please refer to Note 5 – Summary of Investment Policy – Legal and Contractual Provisions for further detail.

Of the CAPP's cash equivalents position held at its custodial bank, $163.1 million was held in unrated money market funds.

As a matter of STIP investment policy, the Board's fixed income investment staff can only purchase securities from a pre-approved "Approved Issuer" list. By STIP policy, permitted money market investments include only SEC registered 2a-7 Institutional Money Market Funds that are considered "US Treasury" or "US Government" money market mutual funds according to the SEC regulations or short-term investment vehicle available through the custodial bank. As of June 30th, all the STIP money market investments were in US Governmental Money Markets and $166 million was held on deposit in a short-term investment vehicle available through the custodial bank. NRSRO provides the credit ratings presented in the following table.

STIP CASH EQUIVALENT CREDIT QUALITY RATINGS AS OF JUNE 30, 2021
(in thousands)

Cash Equivalent Investment Type	Total Cash Equivalents	Credit Quality Rating
Agency or Government Related	$ 182,211	A-1+
Asset Backed Commercial Paper	2,303,761	A-1+
Corporate:		
Commercial Paper	531,325	A-1+
Certificates of Deposit	51,002	A-1+
Interest Bearing Demand Deposit Account (IBDDA)	166,000	NR
Total Cash Equivalents Held at Custodial Bank	$ 3,234,299	

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board uses effective duration as a measure of interest rate risk for all fixed income portfolios. Please refer to Note 5 – Summary of Investment Policy – Legal and Contractual Provisions for further detail.

CAPP, TFIP, and SMA investments at fair value are categorized to disclose credit and interest rate risk on the following table for fixed income securities. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using weighted effective duration.

CREDIT QUALITY RATING AND EFFECTIVE DURATION AS OF JUNE 30, 2021
FAIR VALUES (in thousands)

Security Investment Types	CAPP	TFIP	SMA	Total Fixed Income Investments at Fair Value	Credit Quality Ratings Range	Effective Durations (Years)
Treasuries	$ 763,348	$ 382,471	$ 303,140	$1,448,959	AAA	4.30-9.36
Agency or Government Related	260,341	127,004	79,046	466,391	A to AAA	2.57-6.79
Asset Backed Securities	93,892	59,885	37,243	191,020	AAA	1.38-2.59
Mortgage Backed Securities:						
Noncommercial	484,595	506,382	229,237	1,220,214	AAA	3.20-4.42
Commercial	135,266	131,495	30,830	297,591	AAA	3.79-6.26
Corporate:						
Financial	454,371	307,952	221,401	983,724	BBB+ to A-	3.50-4.33
Industrial	817,833	669,766	341,299	1,828,898	BB to BBB+	4.35-5.07
Industrial (Unrated)	697	264	-	961	NR	0.09
Utility	45,849	12,147	9,935	67,931	BB+ to BBB-	2.96-5.86
Total Fixed Income Investments at Fair Value	$3,056,192	$2,197,366	$1,252,131	$6,505,689		

STIP investments at fair value are categorized to disclose credit risk and weighted average maturity (WAM). Credit risk reflects the weighted security quality rating by investment type as of the June 30th report date. Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated. STIP interest rate risk is determined using the WAM method. The WAM measure expresses investment time horizons – the time when investments are due or reset and payable in days, months, or years – weighted to reflect the dollar size of the individual investments within an investment type. Inclusive of cash and cash equivalents, the WAM averages 115 days for the portfolio.

STIP CREDIT QUALITY RATINGS AND WEIGHTED AVERAGE MATURITY AS OF JUNE 30, 2021
(in thousands)

Security Investment Type		Total Fixed Income Investments at Fair Value	Credit Quality Rating	WAM (Days)
Treasuries	$	789,021	A-1+	99
Agency or Government Related		724,008	A-1+	87
Corporate:				
Commercial Paper		913,481	A-1+	153
Notes		250,494	A-1	111
Certificates of Deposit		405,071	A-1	142
Total STIP Fixed Income Investments at Fair Value	$	3,082,075		

Based on their short weighted average maturity and the relative immaterial difference from their cost to fair value as of June 30th, the Board deemed the cash equivalents to have little discernible interest rate risk.

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of an investment. The Board's foreign currency exposure by denomination and investment type are reported, in U.S. dollars, at fair value and is limited to CAPP. The following table excludes the foreign investments denominated in U.S. dollars for the American Depositary Receipts (ADRs), sovereign debt and commingled index funds.

FOREIGN CURRENCY EXPOSURE BY COUNTRY
INVESTMENT TYPE IN U.S. DOLLAR EQUIVALENT
AS OF JUNE 30, 2021
(in thousands)

Foreign Currency Denomination	Currency	Fixed Income	International Equities	Private Investments	Real Estate	Real Assets
Australian Dollar	$ 41	$ -	$ 27,640	$ -	$ -	$ -
Brazilian Real	131	2,115	25,098	-	-	-
Canadian Dollar	26	-	51,764	-	-	-
Chilean Peso	18	1,016	-	-	-	-
Columbian Peso	87	4,492	-	-	-	-
Danish Krone	11	-	21,364	-	-	-
Egyptian Pound	-	3,716	-	-	-	-
EMU-Euro	74	4,841	220,307	18,423	543	8,771
Hong Kong Dollar	122	-	94,526	-	-	-
Hungarian Forint	14	1,212	2,107	-	-	-
Indonesian Rupiah	-	5,927	3,159	-	-	-
Japanese Yen	409	-	147,321	-	-	-
Malaysian Ringgit	37	2,223	987	-	-	-
Mexican Peso	198	5,163	16,231	-	-	-
New Israeli Sheqel	4	-	5,526	-	-	-
New Taiwan Dollar	22	-	36,553	-	-	-
New Zealand Dollar	-	-	1,030	-	-	-
Norwegian Krone	-	-	6,513	-	-	-
Philippine Peso	1	-	670	-	-	-
Polish Zloty	4	-	2,539	-	-	-
Pound Sterling	-	-	82,808	-	-	-
Russian Ruble	97	4,952	-	-	-	-
Singapore Dollar	51	-	8,525	-	-	-
SOL	23	2,282	-	-	-	-
South African Rand	143	5,694	7,934	-	-	-
South Korean Won	15	-	48,716	-	-	-
Swedish Krona	-	-	50,794	-	-	-
Swiss Franc	40	-	48,500	-	-	-
Thailand Baht	5	-	2,046	-	-	-
Turkish Lira	4	-	152	-	-	-
Yuan Renminbi	13	10	13,867	-	-	-
Total	$ 1,590	$ 43,643	$ 926,677	$ 18,423	$ 543	$ 8,771

4. SECURITIES LENDING

The Board is authorized by law to lend its securities and has contracted with the custodial bank, to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank is required to maintain collateral equal to 102% of the fair value of domestic securities and 105% of the fair value of international securities while the securities are on loan. On any day, including June 30th, the markets may move in a positive or negative direction resulting in under or over collateralization. The custodial bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. The Board and the custodial bank split the earnings 80% and 20% respectively, on securities lending activities. The Board retains all rights and risks of ownership during the loan period. The custodial bank indemnifies the Board's credit risk exposure to the borrowers.

During the fiscal year, the custodial bank loaned the Board's public securities and received as collateral either: U.S. dollar cash; U.S. Government and government sponsored agency securities; U.S. corporate debt securities and structured securities rated AA- or Aa3 or higher; sovereign debt securities of the Group of Ten nations; or debt securities issued by certain supranational agencies. The custodial bank does not have the ability to sell collateral securities unless the borrower defaults.

The Board imposed no restrictions on the amount of securities available to lend during the fiscal year. However, STIP assets are currently not available for securities lending. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of default of the borrower. There were no losses during the fiscal year resulting from a borrower default. As of June 30th, no securities were recalled and not yet returned.

The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in an investment fund named the Navigator Securities Lending Government Money Market (Navigator) portfolio.

The Board and the borrowers maintain the right to terminate all securities lending transactions on notice. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. The Navigator portfolio had an average duration of 24 days and the average weighted final maturity of 93 days.

SECURITIES ON LOAN AND PLEDGED COLLATERAL AS OF JUNE 30, 2021 (in thousands)

	Fair Value On Loan	Collateral Cash	Collateral Securities	Collateral Total	% of Fair Value
Consolidated Asset Pension Pool (CAPP)					
Domestic	$ 487,897	$ 65,515	$ 431,313	$ 496,828	102%
International	62,696	17,857	47,918	65,775	105%
Trust Funds Investment Pool (TFIP)	149,706	49,588	102,932	152,520	102%
Separately Managed Accounts (SMA)	82,559	15,613	68,626	84,239	102%
Total	$ 782,858	$ 148,573	$ 650,789	$ 799,362	

FISCAL YEAR 2021 SECURITIES LENDING INCOME AND EXPENSE (in thousands)

	Gross Income	Expenses	Net Income
Consolidated Asset Pension Pool (CAPP)	$ 1,009	$ (198)	$ 811
Trust Funds Investment Pool (TFIP)	317	(69)	248
Separately Managed Accounts (SMA)	176	(35)	141
Total	$ 1,502	$ (302)	$ 1,200

5. SUMMARY OF INVESTMENT POLICY – LEGAL AND CONTRACTUAL PROVISIONS

The Board manages the Investment Program pursuant to the “Prudent Expert Principle” mandated by state law, which requires an investment manager to:

(a) discharge the duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims;
(b) diversify the holdings of each fund within the UIP to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so; and
(c) discharge the duties solely in the interest of and for the benefit of the funds forming the UIP.

ALLOWED INVESTMENTS

The Board approves all IPSs.

State agencies and local government entities may participate in one or more pools. By investing in pools, participants are provided broad diversification. State agencies may also have direct fixed income, equity, or loan investments. These investments are combined and reported as SMA. Currently, only the nine retirement funds that participate in CAPP, the Defined Contribution Disability Plan, and the Montana State Fund (Workers' Compensation) may invest in public corporate capital stock. Neither State law nor the State Constitution place restrictions on retirement fund investments. The Board approves a separate IPS for each pool and SMA participant, which provides board staff a broad strategic framework under which the investments are managed. The IPSs also reflects the Board approved asset allocation ranges.

By statute, local government entities can voluntarily invest in the STIP. By statute, with a qualifying event, local government entities may also voluntarily invest in the TFIP.

CAPP

The CAPP IPS contains prescribed asset allocation ranges among the allowable asset classes and is subject to change as modifications are adopted by the Board. The Board annually affirms or revises the asset allocation ranges for the retirement plans. The CAPP IPS also contains investment objectives and guidelines for each underlying asset class, with a purpose of providing diversified exposure within the asset class in a prudent and cost-effective manner. Due to a longer-term focus, CAPP's Pension Asset Classes (PAC) differ from other classes that are allowable for other programs. CAPP's underlying asset classes are as follows:

- Domestic Equities
- International Equities
- Private Investments
- Real Assets
- Real Estate
- Core Fixed Income
- Non-Core Fixed Income
- Cash

The CAPP IPS is the only IPS that allows for investments that can be held in non-U.S. securities in a foreign currency. Per the CAPP IPS, the Core Fixed Income Asset Class and Non-Core Fixed Income Asset Class sections have maximum restrictions that can be held. Currency exposures may be hedged, in a defensive manner, at the discretion of the active managers to preserve the U.S. dollar value of investments made.

As part of the asset allocation approved by the Board in November 2020, the Natural Resource PAC was renamed the Real Assets PAC. The Private Investments PAC holds Private Equity and Private Credit portfolios. The Real Assets PAC holds Commodities, Infrastructure and Treasury Inflation Protected Securities (TIPS) portfolios. These changes were effective in January 2021. The changes did not have an impact on the underlying values of the securities within CAPP.

TFIP

The TFIP IPS provides for a 10% portfolio limit for non-core fixed income securities. TFIP invests primarily in investment grade, U.S. dollar denominated fixed income securities. The portfolio has high yield and core real estate exposure.

STIP

The STIP IPS limits concentration of credit risk exposure by limiting portfolio investment types to 3% in any issuer except for U.S. Treasury and U.S. Agency securities as well as any repurchase agreements with a financial institution.

STIP invests primarily in short-term, high quality, fixed income securities with a maximum maturity of 397 days or less. Variable securities shall have a maximum maturity of 2 years. STIP shall maintain a dollar-weighted average portfolio maturity of 120 days or less. STIP is managed to preserve principal while providing 24-hour liquidity for state agency and local government participants.

Per the STIP IPS, "The STIP portfolio will minimize interest rate risk by:

1) structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
2) maintaining a WAM of 120 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities); and
3) STIP will maintain a reserve account."

SMA

SMA invests primarily in investment grade, U.S. dollar denominated fixed income securities and custodial bank interest bearing demand deposit account. However, one participant portfolio has exposure to core real estate and high yield fixed income. The SMA portfolio also includes Veterans' Home Loan Mortgages (VHLM) and loans funded by the Coal Severance Tax Trust Fund, as authorized by statute. Please refer to Note 9 – SMA Montana Mortgages and Loans footnote for further detail.

OTHER POLICY CONSIDERATIONS

For other risk, the Board approves both the IPS and benchmark used for each portfolio. Per the CAPP IPS, the Core Fixed average duration will be maintained in a range within 20% of the benchmark duration. The Core Fixed Income PAC and Non-Core Fixed Income PAC average duration will be maintained in a range within 25% of the index duration. Per the TFIP IPS, the average duration will be maintained in a range within 20% of the benchmark duration. Interest rate risk for SMA is contemplated in each individual IPS and is managed by limiting the maturity of individual securities and/or matching liabilities to maturities per estimated cash flows.

CAPP, TFIP, STIP, and SMA may hold fixed and variable rate securities. Interest payments on variable securities are based on an underlying reference rate, for example, Secured Overnight Financing Rate (SOFR).

6. FAIR VALUE MEASUREMENT

The Board categorizes its fair value measurements within the fair value hierarchy established by GAAP as follows:

Level 1 - Quoted prices for identical assets or liabilities in active markets that the Board can access as of June 30th.

Level 2 - Prices are determined using inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly. These inputs can include quoted prices for similar assets or liabilities in active or inactive markets, or market-corroborated inputs.

Level 3 - Prices are determined using unobservable inputs, which generally results in the Board using the best information available and may include the Board's own data.

Valuations not classified within these levels are further explained in the Investments at Net Asset Value section of the footnote.

Fair Value Level

Fixed income and equity investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Fixed income investments classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Residential Mortgages classified in Level 3 of the fair value hierarchy are present value adjusted.

Direct real estate classified in Level 3 of the fair value hierarchy are based on the latest appraised value. In years with no updated appraisal the Montana Department of Revenue calculated growth rate is used to determine the adjusted value. The direct real estate was last appraised in fiscal year 2020.

Investments measured at cost are included to account for all investments within each pool and SMA. These assets represent cash equivalents and Montana Mortgages and Loans.

For each of the pools and SMA the Board has the following value measurements as of June 30th:

INVESTMENTS MEASURED AT FAIR VALUE
(in thousands)

		Fair Value Measurements Using		
	June 30, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Fixed income investments:				
Treasuries	$ 2,237,980	$ 2,237,980	$ -	$ -
Agency or government related	1,190,399	-	1,190,399	-
Asset backed securities	191,020	-	191,020	-
Mortgage backed securities:				
Noncommercial	1,220,214	-	1,220,214	-
Commercial	297,591	-	297,591	-
Corporate:				
Commercial paper	913,481	-	913,481	-
Commercial notes	250,494	-	250,494	-
Certificates of deposit	405,071	-	405,071	-
Financial	983,724	-	983,724	-
Industrial	1,828,898	-	1,828,898	-
Industrial (Unrated)	961	-	961	-
Utility	67,931	-	67,931	-
Domestic equity investments	5,064,422	5,064,422	-	-
International equity investments	2,498,920	2,498,920	-	-
Direct real estate	21,104	-	-	21,104
Residential mortgages	1,601	-	-	1,601
Investment derivative instruments	420	-	420	-
Total investments by fair value level	17,174,231	$ 9,801,322	$ 7,350,204	$ 22,705
Investments measured at the net asset value (NAV)				
Private Investments	2,063,108			
Core Real Estate	780,811			
Non-Core Real Estate	742,686			
Real Assets	341,822			
Real Estate High Income Fund	208,135			
Total investments measured at NAV	4,136,562			
Total investments measured at fair value	21,310,793			
Investments at cost				
Cash and cash equivalents held at custodial bank	3,421,675			
SMA Montana Mortgages and Loans	192,235			
Total investments not categorized	3,613,910			
Total investments	$ 24,924,703			

INVESTMENTS AT NET ASSET VALUE (NAV)

The investments measured at NAV for the fiscal year are further detailed below:

INVESTMENTS MEASURED AT NAV
(in thousands)

	June 30, 2021			
	Net Asset Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private Investments	2,063,108	$ 1,005,805		
Core Real Estate	780,811	-	Monthly, quarterly	45-90 days
Non-Core Real Estate	742,686	789,773		
Real Assets	341,822	340,045		
Real Estate High Income Fund	208,135		Daily	1 -3 days
Total investments measured at the NAV	$ 4,136,562	$ 2,135,623		

PRIVATE INVESTMENTS - This type includes investments in limited partnerships. Typically, the types of partnership strategies included in this portfolio: venture capital, growth equity, buyouts, special situations, mezzanine, and distressed debt. These investments are considered long-term. Redemptions are restricted over the life of the partnership. During the life of the partnerships, distributions are received as underlying partnership investments are realized. It is expected that the underlying assets of the funds will be liquidated over 10 years. It is probable all the investments in this type will be sold at an amount different from the NAV per share (or its equivalent) of the Board's ownership interest in partners' capital.

CORE REAL ESTATE - This type includes funds that invest primarily in core real estate, which makes equity investments in operating and substantially leased institutional quality real estate in traditional property types (apartments, office, retail, industrial and hotel) via commingled funds. The primary investment objectives of these core real estate funds are to invest in real estate that will generate income from predictable sources of revenue and not to realize gains on the underlying assets. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the Board's ownership interest in the partners' capital. Redemption of these investments is restricted based on the availability of cash flow arising from investment transactions, sales, and other fund operations occurring in the ordinary course of business. Therefore, requested redemptions from a fund will be redeemed as funds become available.

NON-CORE REAL ESTATE - This type includes private partnership funds that primarily invest in value added and opportunistic real estate funds. These funds assume more risk than the core real estate funds to achieve a greater return on investment. Returns are driven both by current income and by expected capital appreciation. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the funds will be liquidated over 7 to 10 years. The fair values of the

investments in this category have been determined using the NAV per share (or its equivalent) of the Board's ownership interest in the fund.

REAL ASSETS - This type includes private partnership funds that primarily invest in timber, energy, broad natural resource funds and infrastructure. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the funds will be liquidated over 10 to 20 years. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the Board's ownership interest in the partners' capital.

REAL ESTATE HIGH INCOME FUND - This type consists of predominantly of real estate related instruments with an emphasis in U.S. corporate credits, whether in the form of bonds or loans that are rated below investment grade. These assets carry a higher risk of default than investment grade securities and accordingly provide a higher level of income or yield commensurate with that risk. The fair values of the investments of this type have been determined using the NAV per share (or its equivalent) of the investments.

7. FAIR VALUE OF DERIVATIVE INSTRUMENTS

The UIP invests in, currency forward contracts, credit default swaps, interest rate swaps, index futures (long and short duration), rights and warrants which are classified as investment derivative instruments. The investment derivative instruments decreased in fair value for the fiscal year ended June 30, 2021 by $4.0 million. The derivative instruments had a fair value of $420 thousand as of the end of the fiscal year and a notional amount of $52.0 million.

INVESTMENT DERIVATIVE INSTRUMENTS AS OF JUNE 30, 2021
(in thousands)

Security Investment Types	Classification	Changes in Fair Value Included in Investment Income	Fair Value	Notional Amount
Credit default swaps bought	Investment	$ 17	$ (31)	$ 2,215
Credit default swaps written	Investment	283	258	10,180
Currency Forward Contracts	Investment	(58)	84	39,051
Index Futures Short	Investment	64	-	(2,600)
Index Futures Long	Investment	3,602	-	3
Receive fixed interest rate swa[	Investment	10	10	3,126
Rights	Investment	15	40	1
Warrants	Investment	45	59	19
Totals		$ 3,978	$ 420	$ 51,995

COUNTERPARTY CREDIT RISK – DERIVATIVE INSTRUMENTS

Counterparty credit risk is the risk that the counterparty will not fulfill its obligations.

The maximum amount of loss to the Board in case of default of all counterparties as of June 30th was $577 thousand.

The following table reflects the Board's applicable counterparty credit ratings and risk concentrations.

RISK CONCENTRATIONS - CREDIT DEFAULT SWAPS AS OF JUNE 30, 2021

Counterparty Name	Percentage of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
Goldman Sachs ICE	45%	BBB+	A	A2
Barclays Bank PLC Wholesale	38%	A	A+	A1
BNP Paribas SA	16%	A+	A+	Aa3
UBS LCH	1%	A+	AA-	Aa3

8. COAL SEVERANCE TAX TRUST FUND LOAN AND MORTGAGE COMMITMENTS

The Board makes firm commitments to fund commercial loans and residential mortgages from the Coal Severance Tax Trust Fund. These commitments have expiration dates and may be extended per Board policies. As of June 30th, the Board had committed, but not yet purchased, $18.1 million in loans from Montana lenders. In addition to the above commitments, lenders had reserved $18.7 million for loans as of June 30th. An additional $2.0 million represented lender reservations for the Veterans' Home Loan Mortgage (VHLM) residential mortgage purchases with no purchase commitments.

The Board makes reservations to fund residential mortgages from the state's pension funds. As of June 30th, there were no residential mortgage reservations. All Board residential mortgage purchases are processed by the Montana Board of Housing (MBOH). The MBOH does not differentiate between a residential mortgage reservation and a funding commitment.

9. SMA MONTANA MORTGAGES AND LOANS

The SMA portfolio includes mortgages and loans, funded by the Coal Severance Tax Trust Fund as authorized by statute. Mortgages and loans shown in the following table are reported at cost.

MONTANA MORTGAGES AND LOANS AS OF JUNE 30, 2021
(in thousands)

Science and Technology Alliance	$	515
Montana University System - MSTA		7,478
Montana Facility Finance		12,017
Local Government Infrastructure		14,708
Veterans' Home Loan Mortgages		46,261
Multifamily Coal Trust Homes		5,151
Intermediary Relending Program (IRP) Loans		4,761
Commercial Loans		101,344
Total Montana Mortgages and Loans at cost	$	192,235

10. TAX ABATEMENT

Within the Board's SMA Commercial Loan Program, by statute, the Infrastructure Loan Program is funded by an $80 million allocation. Eligible local governments request a loan for constructing or purchasing infrastructure to be used by a basic sector business. The basic sector business will pay a user fee to the local government that is pledged to the Board for the loan repayment. The Board reviews each loan and only upon verification that the entities meet the loan requirements is the loan approved by the Board. The Board is part of the primary government of the State.

To be eligible for the program, the basic sector business must create at least 15 full-time basic sector jobs. The maximum loan size is a principal amount of $16,666 multiplied by the number of full-time jobs created with a minimum loan size of $250 thousand. The maximum loan term is 25 years. There is also up to a 2.5% interest rate reduction for job creation. The reduction will be reflected in the user fee rate charged to the basic sector business upon Board review and approval. The basic sector business must create the required jobs within four years of the agreement. If the basic sector business does not create the required jobs within the four-year period, then the basic sector business must pay down the loan balance of the local government entity until the loan balance matches the eligible amount per the jobs created. The Board may increase the interest rate commensurate with the number of jobs eliminated if the borrower eliminates qualifying jobs. The basic sector business must annually provide payroll documentation to the Board.

Pursuant to statute, a business that is created or expanded as the result of an Infrastructure Loan is entitled to a credit against either their State individual income taxes or corporate income taxes for the portion of the fees attributable to the use of the infrastructure. The total amount of tax credit claimed may not exceed the amount of the loan. The credit may be carried forward for seven years or carried back for three years.

During the fiscal year, basic sector business entities made total user fee payments of $1.8 million, representing $1.3 million of principal and $0.5 million in interest. During the fiscal year, a total of $5.3 million was claimed as a credit against the State individual and corporation tax liability. The following table details the credit claimed by tax type and the tax year (TY) it was applied against.

INFRASTRUCTURE CREDITS CLAIMED FOR THE FISCAL YEAR 2021

	For TY 2020		For TY 2019	
	Corporate Income Tax	Individual Income Tax	Corporate Income Tax	Individual Income Tax
Amount Claimed (in thousands)	$ -	$ 34	$ 265	$ 4,965
Number of Credits	-	*	12	*

* indicates less than 10. Number cannot be reported due to confidentiality concerns.

The local government entity must pass a resolution authorizing the acceptance of the commitment agreement. The Board indemnifies the local government regarding repayment of the loan.

11. BOND AND LOAN GUARANTEES

As of June 30th, the Board had provided loan guarantees from STIP, TFIP, the Coal Severance Tax Trust Fund, and the Treasurer's Cash Fund to the Enterprise Fund for exposure to INTERCAP bond issues amounting to approximately $90.6 million and to the Montana Facility Finance Authority (MFFA) amounting to approximately $100.2 million**.** The Board has not had to perform on any bond and loan guarantee in the past.

STIP and TFIP are external investment pools managed by the Board. Both the Coal Severance Tax Trust Fund and the Enterprise Fund are part of the primary government for the State of Montana. The Board manages the Treasurer's Cash Fund which consists of fund balances of all the funds for the State whose investment earnings are permitted by law to flow to the State's General Fund. The Board has irrevocably pledged to make loans to cure INTERCAP reserve account deficiencies and to purchase tendered bonds not redeemed or remarketed. The outstanding bonds have final maturities of March 1, 2028 – March 1, 2042. The Board has not had to perform on any loan guarantee in the past. The amounts are merely commitments of the Board.

By statute, the Board is authorized to credit enhance the INTERCAP bonds and allows the Board to charge a fee for this service. There is an annual fee of up to 15 basis points on outstanding INTERCAP bonds. If the Board was called on to purchase tendered bonds not redeemed or remarketed, INTERCAP's governing bond indenture requires the Board to be paid a fee equal to 25 basis points of the principal amount of tendered bonds purchased. The credit enhancement fee was waived in fiscal year 2021 to reduce the INTERCAP loan rate from 2.50% to 1.00% until August 15, 2020 providing COVID-19 pandemic relief in the form of debt obligation interest savings.

MFFA is a discretely presented component unit of the State of Montana. MFFA guarantee requests are submitted to the Board for review and approval. The Board's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into MFFA's statutorily allowed capital reserve account is explicitly limited by statute which requires the Board to act prudently. The guarantee requests from MFFA pertain to bonds issued by MFFA with a term of up to 40 years. The Board receives a credit enhancement fee at MFFA bond closing based on the term of the financing, the type of bond, the rating of the borrower, and the type of reserve fund. The Board and MFFA have entered into an agreement detailing repayment to the Board. The credit enhancement fee received during the fiscal year was $385 thousand.

The following schedule summarizes the guarantee activity during the fiscal year:

Bond and Loan Guarantee Activity as of June 30, 2021
(in thousands)

	Beginning Balance	Additions	Reductions	Ending Balance
INTERCAP	$ 90,670	$ -	$ 70	$ 90,600
MFFA	88,346	33,465	21,563	100,248

12. STIP RESERVE

The reserve account may be used to offset losses within the STIP portfolio. Refer to Note 11 – Bond and Loan Guarantees for more detail. The following table details STIP Reserve activity:

STIP RESERVE ACTIVITY AS OF JUNE 30, 2021
(in thousands)

Beginning STIP Reserve	$ 52,564
Additions	
Investment earnings:	
Net increase (decrease) on fair value of investments	21
Interest income	12
Transfer of daily STIP income	760
Recoveries from write offs	855
Credit enhancement fees	-
Total investment earnings	1,648
Total STIP Reserve activity	1,648
Ending STIP Reserve	$ 54,212

13. SUBSEQUENT EVENTS

Since June 30th, the Board has committed an additional $109.0 million within the Real Estate Pension Asset Class and $100.0 million within the Private Investments Pension Asset Class of CAPP. Refer to Note 2 – Investments Commitments for further detail.

Since June 30th, the Board has reserved $2.5 million, committed $1.7 million and funded $6.1 million of additional funds to Montana lenders from the Coal Severance Tax Permanent Fund's In-State Loan Program. Of the commitments in effect as of June 30th, $10.0 million have since expired. Additional reservations in the amount of $3.8 million were made for the VHLM residential mortgage purchases. Refer to Note 8 – Coal Severance Tax Trust Fund Loan and Mortgage Commitments for further detail.

On November 30, 2021, the Board adopted Resolution No. 249 entitled: "Resolution of the Board of Investments of the State of Montana relating to its annual adjustable rate Municipal Finance Consolidation Act Extendable Bond (INTERCAP Loan Program), Taxable Series 2022, fixing the terms and conditions of the INTERCAP Bond, and authorizing the sale and issuance of the INTERCAP Bond to the Unified Investment Program." Refer to Note 11 - Bond and Loan Guarantees for further detail.

SUPPLEMENTARY INFORMATION

MONTANA UNIFIED INVESTMENT PROGRAM
COMBINING STATEMENT OF FIDUCIARY NET POSITION
AS OF FISCAL YEAR ENDING JUNE 30, 2021
(in thousands)

			TFIP		
Assets	Total	CAPP	State Agencies	Local Governments	SMA
Investments					
Cash and cash equivalents					
Cash equivalent/STIP - held within pools	$ -	$ 215,102	$ 58,374	$ 277	$ -
Cash and cash equivalents held at custodial bank	3,421,675	176,254	9,205	44	1,873
Total cash and cash equivalents	3,421,675	391,356	67,579	321	1,873
Investments at cost	192,235	-	-	-	192,235
Investments at fair value	21,310,793	13,995,934	2,661,812	12,617	1,558,355
Total investments	24,924,703	14,387,290	2,729,391	12,938	1,752,463
Securities lending cash collateral	148,573	83,372	49,354	234	15,613
Receivables					
Broker receivable for securities sold but not settled	11,812	11,121	660	3	28
Dividend and interest receivable	90,568	69,262	13,381	62	6,918
Total receivables	102,380	80,383	14,041	65	6,946
Total assets	25,175,656	14,551,045	2,792,786	13,237	1,775,022
Liabilities					
Payables					
Broker payable for securities purchased but not settled	65,774	62,625	2,632	12	505
Income due participants	14,703	-	7,818	37	6,341
Other payable	2,995	2,896	65	-	34
Administrative fee payable	5,251	5,004	217	1	29
Total payables	88,723	70,525	10,732	50	6,909
Securities lending obligations	148,573	83,372	49,354	234	15,613
Total liabilities	237,296	153,897	60,086	284	22,522
Net position held in trust for pool and SMA participants	$ 24,938,360	$ 14,397,148	$ 2,732,700	$ 12,953	$ 1,752,500

Statements continue onto the next page.

MONTANA UNIFIED INVESTMENT PROGRAM
COMBINING STATEMENT OF FIDUCIARY NET POSITION
AS OF FISCAL YEAR ENDING JUNE 30, 2021
(in thousands)

Assets	STIP State Agencies	STIP Local Governments	STIP Reserve	Reserve included in STIP**	STIP included in investment pools*
Investments					
Cash and cash equivalents					
Cash equivalent/STIP - held within pools	$ -	$ -	$ -	$ -	$ (273,753)
Cash and cash equivalents held at custodial bank	2,238,737	941,351	54,211	-	-
Total cash and cash equivalents	2,238,737	941,351	54,211	-	(273,753)
Investments at cost	-	-	-	-	-
Investments at fair value	2,169,737	912,338	-	-	-
Total investments	4,408,474	1,853,689	54,211	-	(273,753)
Securities lending cash collateral	-	-	-	-	-
Receivables					
Broker receivable for securities sold but not settled	-	-	-	-	-
Dividend and interest receivable	665	279	1	-	-
Total receivables	665	279	1	-	-
Total assets	4,409,139	1,853,968	54,212	-	(273,753)
Liabilities					
Payables					
Broker payable for securities purchased but not settled	-	-	-	-	-
Income due participants	357	150	-	-	-
Other payable	-	-	-	-	-
Administrative fee payable	-	-	-	-	-
Total payables	357	150	-	-	-
Securities lending obligations	-	-	-	-	-
Total liabilities	357	150	-	-	-
Net position held in trust for pool and SMA participants	$ 4,408,782	$ 1,853,818	$ 54,212	$ -	$ (273,753)

*STIP holdings, purchases, sales, and investment earnings within investment pools are offset to calculate a combining total.
**STIP Reserve investment earnings and reserve expense within STIP are offset to calculate a combining total.

Statements continue onto the next page.

MONTANA UNIFIED INVESTMENT PROGRAM
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR FISCAL YEAR ENDING JUNE 30, 2021
(in thousands)

			TFIP		
	Total	CAPP	State Agencies	Local Governments	SMA
Additions					
Purchases by participants	$ 13,477,346	$ 60,454	$ 144,637	$ -	$ 3,068,399
Net investment earnings					
Investment earnings					
Net increase (decrease) on fair value of investments	3,010,068	2,993,189	(38,126)	(185)	49,486
Dividend/interest income	441,178	308,315	82,823	402	44,476
Other investment income	856	-	-	-	-
Investment earnings	3,452,102	3,301,504	44,697	217	93,962
Investment costs	(66,336)	(60,441)	(3,080)	(15)	(1,946)
Other investment expenses	(21,969)	(21,938)	(31)	-	-
Short Term Investment Pool reserve expense	-	-	-	-	-
Net investment income	3,363,797	3,219,125	41,586	202	92,016
Securities lending income	1,502	1,010	315	1	176
Securities lending expense	(302)	(198)	(69)	-	(35)
Net securities lending income	1,200	812	246	1	141
Total additions	16,842,343	3,280,391	186,469	203	3,160,556
Deductions					
Sales by participants	13,332,604	541,636	9,480	-	4,302,711
Income distributions to participants	131,401	-	79,890	388	40,674
Total deductions	13,464,005	541,636	89,370	388	4,343,385
Change in net position	3,378,338	2,738,755	97,099	(185)	(1,182,829)
Net position held in trust for pool and SMA participants - beginning of year	21,560,022	11,658,393	2,635,601	13,138	2,935,329
Net position held in trust for pool and SMA participants - end of year	$ 24,938,360	$ 14,397,148	$ 2,732,700	$ 12,953	$ 1,752,500

Statements continue onto the next page.

MONTANA UNIFIED INVESTMENT PROGRAM
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR FISCAL YEAR ENDING JUNE 30, 2021
(in thousands)

	STIP				STIP included in investment pools*
	State Agencies	Local Governments	Reserve	Reserve included in STIP**	
Additions					
Purchases by participants	$ 10,242,331	$ 1,494,428	$ -	$ -	$ (1,532,903)
Net investment earnings					
Investment earnings					
Net increase (decrease) on fair value of investments	3,240	2,464	21	(21)	-
Dividend/interest income	3,737	1,994	12	(12)	(569)
Other investment income	1,121	(265)	1,615	(1,615)	-
Investment earnings	8,098	4,193	1,648	(1,648)	(569)
Investment costs	(556)	(298)	-	-	-
Other investment expenses	-	-	-	-	-
Short Term Investment Pool reserve expense	(1,073)	(575)	-	1,648	-
Net investment income	6,469	3,320	1,648	-	(569)
Securities lending income	-	-	-	-	-
Securities lending expense	-	-	-	-	-
Net securities lending income	-	-	-	-	-
Total additions	10,248,800	1,497,748	1,648	-	(1,533,472)
Deductions					
Sales by participants	8,609,631	1,345,610	-	-	(1,476,464)
Income distributions to participants	7,177	3,841	-	-	(569)
Total deductions	8,616,808	1,349,451	-	-	(1,477,033)
Change in net position	1,631,992	148,297	1,648	-	(56,439)
Net position held in trust for pool and SMA participants - beginning of year	2,776,790	1,705,521	52,564	-	(217,314)
Net position held in trust for pool and SMA participants - end of year	$ 4,408,782	$ 1,853,818	$ 54,212	$ -	$ (273,753)

*STIP holdings, purchases, sales, and investment earnings within investment pools are offset to calculate a combining total.
**STIP Reserve investment earnings and reserve expense within STIP are offset to calculate a combining total.

Independent Auditor's Report and Enterprise Fund Program Financial Statements

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Statement of Net Position of the Montana Board of Investments' Enterprise Fund Program as of June 30, 2021, the related Statement of Revenues, Expenses and Changes in Fund Net Position, and the Statement of Cash Flows for the fiscal year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Board of Investments' Enterprise Fund Program as of June 30, 2021, and the changes in fund net position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed on page A-57 in the notes to the financial statements, the Montana Board of Investments' Enterprise Fund Program financial statements are intended to present the financial position, changes in net position, and cash flows of only the portion of the financial reporting entity of the state of Montana that are attributed to the transactions of the Enterprise Fund Program at the board. They do not purport to, and do not present fairly the financial position of the State of Montana as of June 30, 2021, or the changes in its financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page A-47, the Schedule of Proportionate Share of Net Pension Liability on page A-83, the Schedule of Contributions on page A-83, and the Schedule of Total OPEB Liability and Related Ratios on page A-85 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2021, on our consideration of the board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of

internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 7, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis for the Enterprise Fund (the Fund) of the Board of Investments (the Board) of the State of Montana (the State) is presented as an introduction to the financial statements of the Fund. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year, as well as to provide a comparison to the prior year's activities and results.

In addition to the Fund, the Board also administers the Unified Investment Program (UIP) to account for investing activities for local governments, component units, and state agencies. This section of the report represents only the Fund. The UIP financial statements are presented separately.

FINANCIAL HIGHLIGHTS

The Fund's total net position for fiscal year ending June 30, 2021, was $4.9 million as compared to $5.4 million for the fiscal year ending June 30, 2020. The net position decreased $439 thousand for the year ended June 30, 2021 as compared to a $53 thousand decrease in the fiscal year end June 30, 2020 as compared to June 30, 2019.

Operating revenue of the Fund decreased for the year ending June 30, 2021, to $1.2 million as compared to $2.5 million in the prior year. This was primarily due to a decrease in investment revenue in the amount of $436 thousand and a decrease in financing revenue in the amount of $923 thousand.

Operating expenses of the Fund decreased for the year to $1.6 million as compared to $2.5 million in the prior year. This decrease in expenses was primarily the result of lower interest paid on outstanding bonds in the amount of $962 thousand and a decrease of $158 thousand in credit enhancement fees which were waived for the year due to the ongoing COVID-19 pandemic.

As a result of operations, the net of operating revenue and operating expenses resulted in an operating loss for the Fund for the year of approximately $439 thousand. This is in comparison to an operating loss of approximately $53 thousand in the previous fiscal year.

Cash flow of the Fund decreased by approximately $10.5 million for the fiscal year as compared to a net decrease in cash flow of approximately $1.2 million in the prior fiscal year. During fiscal year 2021, the loans funded were in the amount of $25.6 million as compared to $29.1 million in the prior year. The outflow for payment of principal and interest on bonds was $1.2 million in 2021 as compared to $16.8 million in 2020. This change in outflow occurred primarily due to the optional redemption of outstanding bonds by the Board in 2020 of $14.4 million versus $70 thousand and a decrease in the interest paid on bonds. Collections for principal and interest on loans decreased by $18.4 million in 2021 as compared to 2020. The outflow for purchases of investments increased by $15.1 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Fund is a Proprietary Fund of the State's Annual Comprehensive Financial Report (ACFR), which is separately issued from these financial statements. The Fund is not an entire reporting entity as described within accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board (GASB). However, the Fund provides this report to account for State programs created under the Municipal Finance Consolidation Act and Economic Development Bond Act of the State.

The financial statements and footnotes follow this section of the report. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with GAAP.

The **STATEMENT OF NET POSITION** provides information on the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and the elements of Net Position of the Fund as of the fiscal year ended June 30, 2021.

The **STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION** provides information on the various flows of operating revenues, operating expenses, non-operating revenues, and non-operating expenses for the Fund for the fiscal year ended June 30, 2021.

The **STATEMENT OF CASH FLOWS** presents information on the sources and uses of cash during the most recent fiscal year. The Statement of Cash Flows is subdivided into three major sections to show cash provided or used by operating, capital and related financing, and investing activities. GAAP requires this statement to be reported utilizing a direct relationship of cash to sources of flows with a reconciliation of net cash provided by or used for operating activities to net operating income. A further schedule is also provided for non-cash transactions, primarily relating to the increase or decrease in the fair value of the Fund's investments that occurred during the fiscal year but did not result in cash flows.

The **NOTES TO THE BASIC FINANCIAL STATEMENTS** provide additional information that is essential to a full understanding of the data provided in the financial statements of the Fund.

Additional **REQUIRED SUPPLEMENTARY INFORMATION** is presented in accordance with GAAP related to the defined benefit pensions and other post employment benefits (OPEB).

FINANCIAL ANALYSIS

NET POSITION The following is a condensed Statement of Net Position of the Fund as of June 30th as compared to the prior year:

CONDENSED STATEMENT OF POSITION (in thousands)	June 30, 2021	June 30, 2020
Assets		
Non-capital assets	$ 96,046	$ 96,751
Capital assets, net of accumulated depreciation	1	1
Total assets	96,047	96,752
Deferred Outflows of Resources	130	51
Liabilities		
Current liabilities	90,696	91,047
Noncurrent liabilities	509	327
Total liabilities	91,205	91,374
Deferred Inflows of Resources	40	58
Net Position		
Invested in Capital Assets	1	1
Restricted Net Position	405	274
Unrestricted Net Position	4,526	5,096
Total Net Position	**$ 4,932**	**$ 5,371**

As of June 30, 2021, most of the assets remained composed of note and loan interest and principal receivable in accordance with the INTERCAP program presented in the Fund. As described in more detail in the notes to the basic financial statements, the Fund issues notes and loans for eligible Montana local governments, state agencies, and component units. The INTERCAP Revolving Loan Program is an intermediate term capital program administered by the Board.

At the end of the fiscal year, the total note and loan principal portfolio receivable was approximately $72.5 million, as compared to approximately $69.0 million at the beginning of the year. Approximately $25.6 million in loans were funded during the fiscal year ended June 30, 2021. The Fund received repayments of approximately $23.8 million, including principal and interest. None of the portfolio is considered in default as of the end of the fiscal year.

The remaining assets are comprised of cash and cash equivalents, interest receivable related to investments, and investments at fair value. As described in the Notes to the basic financial statements, the fair value of investments is held in United States Treasury obligations.

Deferred outflows of resources and deferred inflows of resources are related to various elements of defined benefit pensions and OPEB that are recognized as part of future years' expenses due to the passage of time.

Most of the Fund's liabilities are bonds payable related to debt issuances that fund the INTERCAP loans for eligible Montana governmental units. As discussed in the Notes to the basic financial statements, the amounts are deemed current liabilities as they may be payable on demand each March 1st prior to final maturity in 2042.

The total net position of the Fund is comprised of three elements as required by GAAP. Unrestricted Net Position is the largest element that represents the accumulated unrestricted changes in net position since the inception of the Fund. Restricted Net Position is comprised of amounts related to the INTERCAP bonds and can only be reused in accordance with those provisions. Net investment in capital assets within the fund represents leased equipment.

CHANGES IN NET POSITION The following is a condensed Statement of Revenues, Expenses and Changes in Net Position by major sources for the current and prior fiscal years ended June 30th.

CONDENSED STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
(in thousands)

	For Fiscal Years Ending June 30, 2021	June 30, 2020
Operating Revenues		
Financing Income	$ 1,118	$ 2,041
Other	44	448
Total Operating Revenues	1,162	2,489
Operating Expenses		
Debt Service	866	2,008
Personal Services	432	253
Other	303	281
Total Operating Expenses	1,601	2,542
Operating Income (Loss)	(439)	(53)
Change in Fund Net Postion	(439)	(53)
Total Fund Net Postion as of the Beginning of the Year	5,371	5,413
Prior Period Adjustment	-	11
Total Fund Net Postiton as of the End of the Year	$ 4,932	$ 5,371

Operating revenues were primarily related to financing income related to the INTERCAP note and loan portfolio. Financing income decreased from the prior year primarily due to a decrease in the borrower interest rate. Loan interest rates are reset every February. The loan rate from February 16, 2020 to February 15, 2021 was 2.50%. In response to the COVID-19 pandemic, the loan rate

was decreased to 1.00% until August 15, 2020. The loan rate for February 16, 2021 to February 15, 2022 is 1.65%. Other operating revenues are comprised of investment income, primarily from investment interest and changes in fair value.

Operating expenses occur in two areas: debt service and personal services. Debt service on the bonds includes interest expense, trustee fees and similar, which decreased by $1.1 million this year because of lower interest rates. By statute, the Board is authorized to credit enhance the INTERCAP bonds and allows the Board to charge a fee for this service. There is an annual fee of up to 15 basis points on outstanding INTERCAP bonds. The credit enhancement fee was waived by the Board in fiscal year 2021 to provide COVID-19 pandemic relief in the form of debt obligation interest savings. The waiver resulted in a decrease of $158 thousand from the prior year. Rebatable arbitrage also was negated during the year, resulting in a reduction of amounts accrued by $39 thousand. Personal services include employee compensation, compensated absence expense, sick leave and other compensatory time recognized during the fiscal year. These amounts increased this year by $179 thousand.

Other amounts include contracted services, supplies and materials, communications, travel, rent, pensions, post employment benefits, and other overhead expenses. These expenses increased by $22 thousand during the year.

The net of all the flows resulted in a $570 thousand decrease to Unrestricted Net Position for the fiscal year ended June 30, 2021, and a $131 thousand increase to Restricted Net Position primarily due to the retirement of the bonds and spending of bond proceeds. Total Net Position decreased by $439 thousand from the prior year.

OPERATIONAL HIGHLIGHTS

The Board continues to be proactive at ensuring the personal safety of staff in accordance with State and national guidelines. Despite the COVID-19 pandemic, Board operations maintained a steady flow of low interest loans to eligible Montana governments, several of which were public safety related.

ECONOMIC FACTORS AND CURRENTLY KNOWN FACTS THAT MAY IMPACT THE FUND'S OPERATIONS IN THE FUTURE

The Board's 25-year tax-exempt Municipal Finance Consolidated Act Bonds used to fund low variable interest rate loans through INTERCAP provide bondholders with an annual tender option that, if tendered, is remarketed every February. Market conditions that include, but are not limited to, supply and demand along with other similar rated credits pricing at the time of remarketing influence the bond yield negotiated each year.

Requests for Information and Transparency This financial report is designed to provide a general overview of the Fund's operations. Questions concerning any of the information contained in this report or requests for additional information about the Board's operations, should be addressed to the Board at 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, Montana 59620-0126. The Board may be reached by phone at 406.444.0001. Board Meeting agenda and minutes are posted at http://investmentmt.com/Board/Meetings.

ENTERPRISE FUND (An Enterprise Fund of the State of Montana)
STATEMENT OF NET POSITION AS OF JUNE 30, 2021
(in thousands)

Assets		
Current assets		
Cash and cash equivalents	$	16,056
Interest receivable		287
Notes/loans receivable		7,032
Interfund notes/loans		3,688
Interfund interest receivable		42
Component Unit notes/loans		1,384
Component Unit interest receivable		61
Short-term investments at fair value		7,523
Total current assets		36,073
Noncurrent assets		
Notes/loans receivable		44,269
Interfund notes/loans		7,189
Component Unit notes/loans receivable		8,515
Equipment, net		1
Total noncurrent assets		59,974
Total assets		96,047
Deferred outflows of resources		130
Liabilities		
Current liabilities		
Accounts payable		1
Lease payable		1
Accrued expenses		24
Accrued interest payable		45
Compensated absences		25
Current bonds/notes payable		90,600
Total current liabilities		90,696
Noncurrent liabilities		
Compensated absences		60
Total OPEB liability		45
Net pension liability		404
Total noncurrent liabilities		509
Total liabilities		91,205
Deferred inflows of resources		40
Net position		
Net investment in capital assets		1
Restricted		405
Unrestricted		4,526
Total net position	$	4,932

The accompanying notes are an integral part of these financial statements.

ENTERPRISE FUND (An Enterprise Fund of the State of Montana)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2021
(in thousands)

Operating revenue		
Reimbursements	$	39
Investment revenue		5
Financing revenue		1,118
Total operating revenue		1,162
Operating expenses		
Personal services		432
Contracted services		38
Supplies and materials		40
Communications		9
Travel		1
Rent		54
Repair and maintenance		1
Indirect and other costs		66
OPEB expense		3
Pension expense		96
Arbitrage rebate tax expense (income)		(4)
Debt service		
Interest expense		650
Trustee fee expense		53
Other debt service expense		163
Total operating expenses		1,601
Operating income (loss)		(439)
Change in fund net position		(439)
Total fund net position, July 1		5,371
Total fund net position, June 30	$	4,932

The accompanying notes are an integral part of these financial statements.

ENTERPRISE FUND (An Enterprise Fund of the State of Montana)
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2021
(in thousands)

Cash flows from operating activities	
Reimbursements	$ 39
Payments to suppliers for goods and services	(234)
Payments to employees	(440)
Net cash (used for) operating activities	(635)
Cash flows from non-capital financing activities:	
Payment of principal and interest on bonds and notes	(1,193)
Net cash (used for) provided by non-capital financing activities	(1,193)
Cash flows from investing activities:	
Collections for principal and interest on loans	23,752
Cash payments for loans	(25,609)
Purchase of investments	(20,621)
Proceeds from sales or maturities of investments	13,804
Interest on deposits/investments	12
Net cash (used for) provided by investing activities	(8,662)
Net (decrease) increase in cash and cash equivalents	(10,490)
Cash and cash equivalents, July 1	26,546
Cash and cash equivalents, June 30	$ 16,056

The accompanying notes are an integral part of these financial statements.

ENTERPRISE FUND (An Enterprise Fund of the State of Montana)
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2021
(in thousands)

Reconciliation of net income to net cash (used for) operating activities		
Net operating income (loss)	$	(439)
Adjustments to reconcile net income to net cash (used for) operating activities		
Interest on investments		(5)
Financing income		(1,118)
Interest expense		866
Change in assets, liabilities, deferred inflows, and deferred outflows:		
Decrease (increase) in OPEB deferred outflows		(30)
Decrease (increase) in pension deferred outflows (Notes 11, 14)		(49)
Increase (decrease) in accounts payable		(6)
Increase (decrease) in lease payable		(1)
Increase (decrease) in arbitrage payable		(22)
Increase (decrease) in other payables		(10)
Increase (decrease) in compensated absences payable		31
Increase (decrease) in net pension liability		135
Increase (decrease) in OPEB liability		31
Increase (decrease) in OPEB deferred inflows of resources		2
Increase (decrease) in pension deferred inflows of resources		(20)
Total adjustments		(196)
Net cash (used for) operating activities	$	(635)
Schedule of noncash transactions:		
Increase/(decrease) in fair value of investments	$	3
Total noncash transactions	$	3

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2021

These financial statements present only the activity of the Enterprise Fund (the Fund) as managed by the Board of Investments (the Board). The Fund is reported as a proprietary fund within the State of Montana's (the State) Annual Comprehensive Financial Report (ACFR). The State's ACFR is available from the Montana Department of Administration's State Financial Services Division website http://sfsd.mt.gov/SAB/acfr; at Room 255 Mitchell Building, 125 North Roberts Street, PO Box 200102, Helena, MT 59620-0102 or at 406.444.3092.

1. DESCRIPTION OF FUND AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF FUND

The Board uses the Fund to account for its programs created under the Municipal Finance Consolidation Act and the Economic Development Bond Act.

Municipal Finance Consolidation Act programs include:

- The INTERCAP Revolving Loan Program (INTERCAP) provides funds to eligible Montana state and local governments to finance capital expenditures for up to fifteen years or the useful life of the project, whichever is less.

- Qualified Zone Academy Bond (QZAB) Program provides a financial instrument that is a different form of subsidy from traditional tax-exempt bonds. The federal government pays the interest on the QZABs in the form of an annual tax credit to a bank (or other eligible financial institution) that holds the QZAB. The Board acts as a legal funding conduit only and is not liable for the repayment of the bonds.

- Qualified School Construction Bond (QSCB) Program provides a financial instrument that is a different form of subsidy from traditional tax-exempt bonds. The revenues of the borrower are pledged to repay the bonds. The Board acts as a legal funding conduit only and is not liable for the repayment of the bonds.

Economic Development Bond Act programs include:

- The Conservation Reserve Enhancement Program (CRP), created in 1990 by issuing bonds, allows farmers to receive a lump sum payment by assigning their federal CRP contract to the Board. The farmers under contract must comply with seeding and other requirements. The outstanding principal and interest within this program as of June 30, 2021, was $11 thousand.

BASIS OF ACCOUNTING

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting and have been prepared in conformity with accounting principles generally accepted in the United States for governments (GAAP) as established by the Governmental Accounting Standards Board (GASB).

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are generally short-term, highly liquid investments with maturities of three months or less at time of purchase and are reported at cost. For additional details, see Note 2 – Cash and Investments.

INVESTMENTS

Investments are presented in the Statement of Net Position at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied by the Board's trustee. For additional detail, see Note 2 – Cash and Investments.

RECEIVABLES

Receivables primarily represent notes and loans classified in three categories as follows:

1) Notes and loans receivable from local governments.
2) Interfund notes and loans receivable from state agency governments.
3) Component Unit notes and loans receivable from university units for which the State is financially accountable.

Notes and loans generally have terms of less than 15 years. For additional detail, see Note 3 - Receivables.

CAPITAL ASSETS AND DEPRECIATION

Capital assets include equipment with a cost of $5 thousand or more. Capital assets are valued at historical cost. In accordance with state policy, the capital assets are depreciated on a straight-line methodology over an estimated useful life of 5 - 10 years. The capital assets within the fund represents leased equipment. Assets less than $5 thousand at time of acquisition are expensed. For additional details, see Note 5 – Capital Leases.

CAPITAL LEASES

A capital lease is a lease which transfers benefits and risks of ownership to the lessee. At the inception of the lease a capital lease liability is recorded at the present value of the future minimum lease payments. Further detail related to capital leases is provided in Note 5 – Capital Leases.

ARBITRAGE REBATE

The amount of investment income the Fund may earn and retain on the proceeds of various bonds is limited by federal tax law. Earnings more than the allowable amount must be rebated to the United States Treasury. As of June 30, 2021, no such excess earnings are recorded as part of liabilities.

For the year ended June 30, 2021
(in thousands)

	Beginning Balance	Additions	Reductions	Ending Balance
Current	$ -	$ 17	$ (17)	$ -
Non-Currrent	$ 22	$ -	$ (22)	$ -
Total	$ 22	$ 17	$ (39)	$ -

COMPENSATED ABSENCES

Compensated absences reflect the accrued benefits due to employees at the end of the fiscal year.

PENSIONS AND OTHER POST EMPLOYMENT BENEFITS (OPEB)

Information about the fiduciary net position of the Montana Public Employees Retirement Administration (MPERA) and the State Group Benefits Plan administered by the Montana Department of Administration, along with additions to and deductions from fiduciary net position have been determined on the same basis as those systems for the purposes of measuring the net pension liability and the net OPEB liabilities, deferred outflows of resources, and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, respectively. Benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms for this purpose. For additional detail, see Notes 9 – Pensions and 10 – OPEB.

NET POSITION

Net Position represents the accumulated net profits of the Fund's programs, portions of which are restricted under bond indentures governing the use of these funds.

OPERATING AND NONOPERATING REVENUES AND EXPENSES

Operating revenues reflect interest income on loans and investments, change in fair value of investments, and related investment expenses offsetting investment income. Operating expenses include interest expense, general and administrative expenses. All revenues and expenses not

meeting this definition are nonoperating.

USE OF ESTIMATES

In conformity with GAAP, management may make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from estimated amounts.

2. CASH AND INVESTMENTS

CASH AND CASH EQUIVALENTS

Cash and cash equivalents, as identified in the Statement of Net Position, are as follows:

CASH AND CASH EQUIVALENTS
(in thousands)

		June 30, 2021
Cash in treasury	$	30
Short Term Investment Pool (STIP)		356
First American Government Obligation Fund		15,026
U.S. Treasury Bills		644
Total Cash and Cash Equivalents	$	16,056

The Fund invests its operational cash in the Board's Short-Term Investment Pool (STIP), an external investment pool. STIP is managed to preserve principal while providing 24-hour liquidity for state agencies, component units, and local government participants. Funds may be invested for one or more days. STIP participants own STIP shares not underlying investments. STIP is managed by the Board as a fiduciary for participants. Income is distributed monthly on a pro-rata basis. Cash and cash equivalents are reported at cost.

INVESTMENTS AND INVESTMENT RISKS

The Fund deposits and investments are restricted by the bond trust indenture to the following: government and agency obligations, certificates of deposits, repurchase agreements, and investment agreements. The bond trust indenture addresses custodial credit risk, concentration of credit risk, credit risk, interest rate and credit quality risk by detailing the permitted investments. The Board's STIP Investment Policy Statement (IPS) details custodial credit risk, concentration of credit risk, and credit risk. Deposits and investments must be made with Montana banks or in the STIP administered by the Board.

CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Board will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Per policy, the Board's custodial bank must be rated at a minimum, at the 6th largest investment grade rating by at least two Nationally Registered Statistical Ratings Organizations (NRSROs) and is reviewed on an annual basis.

Cash

Custodial risk for cash is the risk that, in the event of the failure of the custodial financial institution, the cash or collateral securities may not be recovered from an outside party. The securities used as collateral are held by the Trustee in the name of the Board.

Investments

As of June 30th, Fund securities were recorded by the Trustee in the name of the Board by specific account.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of any single investment per issuer name. Investments directly issued or explicitly guaranteed by the U.S. government and investments in mutual funds are excluded from the concentration of credit risk requirement. The STIP Investment Policy Statement (IPS) limits concentration of credit risk by limiting portfolio investment types to 3% in any issuer except for U.S. Treasury and U.S. Agency securities as well as any repurchase agreements with a financial institution. STIP concentration risk was within the policy as set by the Board.

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Fund's U.S. government direct-backed securities, consisting of U.S. Treasury notes and bills, are guaranteed directly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The Permitted Investments, as described in the Indenture, include "Either (i) long term obligations of such bank, trust company or association are rated in one of the three highest investment categories of the Standard & Poor's Corporation or Moody's Investor Service Inc., which investment category shall not be less than the prevailing rate on the Bonds or (ii) the deposits are continuously secured as to principal, but only to the extent not insured by the Bank Insurance Fund or the Savings Association Insurance Fund, or any successor to either, of the Federal Deposit Insurance Corporation (FDIC)."

The Board's STIP IPS specifies that STIP securities have a minimum of two credit ratings as provided by national recognized statistical rating organizations to assist in the monitoring and management of credit risk. The purchase of STIP securities other than U.S. government or U.S. Agency obligations are restricted to those which are pre-approved. Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated.

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Permitted Investments as described in the Indenture details the allowable investments, including those in STIP. STIP interest rate risk is determined using the Weighted Average Maturity (WAM) method.

According to the STIP IPS, “The STIP portfolio will minimize interest rate risk by:

1) structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
2) maintaining a dollar-weighted average portfolio maturity (WAM) of 120 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities; and
3) STIP will maintain a reserve account.”

Fund investments are categorized as follows to disclose credit and interest rate risk as of June 30th. Credit risk reflects the weighted credit quality rating by investment type. Interest rate risk is disclosed using weighted effective duration as calculated by Board staff. The credit quality ratings have been calculated excluding non-rated investment types. Both the credit quality ratings and duration have been calculated excluding cash equivalents, as Management of the Board determined that these securities did not contain these risk elements. There were no derivative transactions during the fiscal year for investments held by the Trustee.

CREDIT QUALITY RATING AND EFFECTIVE DURATION AS OF JUNE, 2021
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating (1)	Effective Duration (1)
Short-term investments			
US Treasury Obligations	$ 7,523	AA+	0.26
Total investments by fair value level	$ 7,523		

1) Credit Quality Rating and Effective Duration are weighted.

Based on their short weighted average maturity and the relative immaterial difference from their cost to fair value as of June 30th, the Board deemed the cash equivalents to have little discernible interest rate risk.

FAIR VALUE MEASUREMENT

The Board categorizes its fair value measurements within the fair value hierarchy established by GAAP as follows:

> Level 1 - Quoted prices for identical assets or liabilities in active markets that the Board can access as of June 30th.
>
> Level 2 - Prices determined using inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly. These inputs can include quoted prices for similar assets or liabilities in active or inactive markets, or market-corroborated inputs.
>
> Level 3 - Prices are determined using unobservable inputs, which generally results in the Board using the best information available and may include the Board's own data.

Investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Investments classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

The Board has the following fair value measurements for the Fund as of June 30th:

INVESTMENTS MEASURED AT FAIR VALUE
(in thousands)

		Fair Value Measurements Using		
	June 30, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Short-term investments at fair value				
US Treasury Obligations	$ 7,523	$ 7,523	$ -	$ -
Total investments by fair value level	$ 7,523	$ 7,523	$ -	$ -

3. RECEIVABLES

The INTERCAP loan program loans money to local governments, state agencies (Interfund) and component units of the State. Amounts related to the notes/loan receivable identified in the Statement of Net Position, are detailed as follows:

NOTE/LOAN RECEIVABLES JUNE 30, 2021 (in thousands)	Local Government	Interfund	Component Unit	Total
Notes/Loans Receivable - ST	$ 7,032	$ 3,688	$ 1,384	$ 12,104
Notes/Loans Receivable - LT	44,269	7,189	8,515	59,973
Interest Receivable	287	42	61	390
	$ 51,588	$ 10,919	$ 9,960	$ 72,467

The interfund and component unit note/loan receivables are further broken down by fund type and component unit as follows:

INTERFUND/COMPONENT UNIT RECEIVABLE BY FUND TYPE/CU JUNE 30, 2021 (in thousands)	Interfund		Component Unit	
	Debt Service	Internal Service Fund	Montana State University	Total
Interfund	$ 1,811	$ 9,066	$ -	$ 10,877
Component Unit	-	-	9,899	9,899
Interest Receivable	5	37	61	103
	$ 1,816	$ 9,103	$ 9,960	$ 20,879

4. BONDS PAYABLE

The Fund is authorized to issue INTERCAP bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate to more than $190 million by statute. The INTERCAP bonds provide funds for the Board to make loans to eligible government units.

The bonds are not a debt or liability of the State. The bonds are limited obligations of the Board payable solely from:

a) repayments of principal and interest on loans made by the Board to participating eligible Montana governments;
b) investment income under the Indenture; and
c) an irrevocable pledge by the Board. The Board has no taxing power.

These bonds may be tendered at the bondholder's option or they may be redeemed at the Board's option, any March 1, prior to maturity. The Board did not enter into an arms-length financing agreement to convert the bonds "put," or tender, and were not resold into some other form of

long-term obligation. Accordingly, these bonds, considered demand bonds, are recorded as current liabilities of the Fund.

The Board annually remarkets the bonds and annually adjusts the interest in accordance with the Bonds' Indenture of Trust. Interest is paid semi-annually on September 1st and on March 1st. Interest is computed based on a year of 360 days. The interest rate paid to bondholders on September 1, 2020 and March 1, 2021 was 1.00%. The interest rate effective for March 1, 2021 – February 28, 2022 is 0.15%.

In accordance with the Indenture, the Board can issue additional bonds at any time that would bear the interest rate determined at the time of issuance until the next remarketing date. No new bonds were issued in the fiscal year ending June 30th.

The INTERCAP program does not have principal payments except in the instance of an optional redemption by the Board. There was a change in outflow in 2021 that occurred primarily due to the optional redemption of outstanding bonds by the Board in the amount of $70 thousand. The bonds are remarketed each February and are treated as a new issuance. Interest expense attributable to the current year was $650 thousand.

BONDS PAYABLE
(in thousands)

Series	Amount Issued	Interest Range	Maturity	Balance June 30, 2021
2003	$ 15,000	Variable	2028	$ 14,305
2004	18,500	Variable	2029	17,935
2007	15,000	Variable	2032	14,615
2010	12,000	Variable	2035	11,860
2013	12,000	Variable	2038	11,960
2017	20,000	Variable	2042	19,925
Total INTERCAP Debt	$ 92,500			$ 90,600
Current Bonds Payable				$ 90,600

The following schedule summarizes the INTERCAP activity during the fiscal year (in thousands):

Beginning Balance	Additions	Reductions	Ending Balance
$ 90,670	$ -	$ (70)	$ 90,600

BOND/LOAN GUARANTEES

As of June 30th, the Fund had received a nonexchange financial guarantee from the STIP, TFIP, Coal Severance Tax Trust Fund, and the Treasurer's Cash Fund for exposure to INTERCAP bond

issues in the amount of $90.6 million. STIP and TFIP are external investment pools managed by the Board. Both the Coal Severance Tax Trust Fund and the Treasurer's Fund are part of the primary government for the State. The Board manages the Treasurer's Cash Fund which consists of fund balances of all the funds for the State whose investments earnings are permitted by law to flow to the State's General Fund. The nonexchange financial guarantee was extended through the Board's management of the Unified Investment Program. The Board has irrevocably pledged to make loans to cure INTERCAP reserve account deficiencies and to purchase tendered bonds not redeemed or remarketed. The outstanding bonds have final maturities of March 1, 2028 – March 1, 2042. The Board has not had to perform on any loan guarantee in the past.

By statute, the Board is authorized to credit enhance the INTERCAP bonds and is allowed to charge a fee for this service by statute. There is an annual fee of up to 15 basis points on outstanding INTERCAP bonds. If the Board was called on to purchase tendered bonds not redeemed or remarketed, INTERCAP's governing bond indenture requires the Board to be paid a fee equal to 25 basis points of the principal amount of tendered bonds actually purchased. The credit enhancement fee was waived this fiscal year to reduce the INTERCAP loan rate from 2.50% to 1.00% until August 15, 2020 providing COVID-19 pandemic relief in the form of debt obligation interest savings.

Per the Bond Indenture, an Event of Default includes a default in the due and punctual payment of any interest or principal, proceeding by or against the Issuer commenced under law, and default in the performance of the Indenture. The Bond Trustee may, upon written request of the Bondholders of not less than twenty-five percent in aggregate of the principal amount of the outstanding Bonds, declare the outstanding principal and interest to be due and payable immediately. Upon Event of Default, the Bond Trustee may pursue any available remedy under law. There has not been an Event of Default on any bond in the past.

5. CAPITAL LEASES

As of June 30th, assets acquired under capital lease arrangements consist of photocopiers. Such assets are carried at a cost of $915 less accumulated depreciation of $275 for this fund and are split-funded with other funds within the State's financial report. The leases terminate in 2022 without an option to extend.

The following schedule summarizes the capital lease payable activity during the fiscal year (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amount due within 1 year
Capital Lease Payable	$2	$0	$1	$1	$1

Operating lease payments made for the fiscal year were $555.

6. CHANGES IN LONG-TERM DEBT

The fund long-term activities for the year ended June 30th, were as follows:

CHANGES IN LONG-TERM DEBT
(in thousands)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due in More Than One Year
Compensated Absences	$ 53	$ 87	$ (55)	$ 85	$ 25	$ 60

7. CONDUIT (NO COMMITMENT) DEBT

QZAB DEBT

In this program, the Board is authorized to issue Qualified Zone Academy Bonds (QZAB), under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues, and in some cases the taxing power, of the borrower are pledged to repay the bonds. Because the Board has no obligation for this debt, these bond issues are not reflected on the Board's financial statements. The borrower has set money aside to be used for the repayment of these bonds in accounts that are held in trust by the Board in the amount of $2.9 million. This amount is reported within a fiduciary fund for the State of Montana. Bonds issued and outstanding by the Board as QZAB conduit (no-commitment) debt are listed as follows:

QZAB DEBT
(in thousands)

Project	Issue Date	Maturity Date	Amount Issued	Balance June 30, 2021
Cut Bank Elementary	August 2005	08/18/21	$ 825	$ 825
Cut Bank High School	August 2005	08/18/21	625	625
Kalispell Elementary	October 2013	06/15/28	620	620
Kalispell High School	October 2013	06/15/28	1,587	1,587
Anaconda Elementary	August 2017	06/15/32	658	658
Anaconda High School	August 2017	06/15/32	707	707
Total QZAB conduit debt			$ 5,022	$ 5,022

QZAB:

Beginning Balance	Additions	Reductions	Ending Balance
$ 5,022	$ -	$ -	$ 5,022

QSCB DEBT

In this program, the Board is authorized to issue Qualified School Construction Bonds (QSCB), under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues of the borrower are pledged to repay the bonds. Because the Board has no obligation for this debt, these bond issues are not reflected on the Board's financial statements. Bonds issued and outstanding by the Board as QSCB conduit (no-commitment) debt are as follows:

QSCB DEBT
(in thousands)

Project	Issue Date	Maturity Date	Amount Issued	Balance June 30, 2021
Great Falls High Schools	April 2011	12/15/25	$ 1,855	$ 720
Great Falls Elementary	April 2011	12/15/25	6,510	2,528
Total QSCB conduit debt			$ 8,365	$ 3,248

QSCB:

Beginning Balance	Additions	Reductions	Ending Balance
$ 3,882	$ -	$ 634	$ 3,248

8. INTERCAP PROGRAM COMMITMENTS

The Board makes firm commitments to fund loans from the INTERCAP loan program. The Board's outstanding commitments to eligible Montana governments as of June 30th totaled $23.8 million.

9. PENSIONS

DESCRIPTION OF PLANS

The Board and its employees contribute to either the Public Employees' Retirement System (PERS)-Defined Benefit Retirement Plan (DBRP) or the PERS-Defined Contribution Retirement Plan (DCRP). Both the DBRP and the DCRP are administered by the MPERA. The DBRP is a multiple-employer, cost-sharing plan. The DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries.

All new members are initially members of the DBRP and have a 12-month window during which they may choose to remain in the DBRP or join the DCRP by filing an irrevocable election. Members may not be members of both the defined contribution and defined benefit retirement plans.

Benefits and contribution rates are established by state law and can only be amended by the Legislature. DBRP Benefits are dependent upon eligibility, years of service and highest annual compensation (HAC).

Employees of the fund may or may not be members of the DCRP. Based on confidentiality requirements, MPERA is not able to provide details of DCRP members.

The stand-alone financial statements of the Montana Public Employees Retirement Board (PERB) Annual Comprehensive Financial Report (ACFR) and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, 406.444.3154 or both are available on the MPERA website at https://mpera.mt.gov/about/annualreports1/annualreports. The information contained within MPERB's ACFR will only display information regarding PERS in total and will not display information specific to the Fund as an entity. The Fund activity is reported within the Department of Commerce GASB 68 employer report as prepared by MPERA and represents 2.42% of the agency's liability and .02% of the total liability for all employers for the fiscal year.

NET PENSION LIABILITY (NPL) - DBRP

At year end, the Fund recorded a liability of $404 thousand for its .02% proportionate share of the DBRP NPL and $96 thousand for its proportionate share of the pension expense. The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period.

SUMMARY OF BENEFITS - DBRP

Member's highest average compensation (HAC)

Hired prior to July 1, 2011	HAC during any consecutive 36 months;
Hired on or after July 1, 2011	HAC during any consecutive 60 months;

Compensation Cap

Hired on or after July 1, 2013 110% annual cap on compensation considered as part of a member's HAC.

Vesting

5 years of membership service

Eligibility for benefit

Service retirement:

Hired prior to July 1, 2011	Age 60, 5 years of membership service; Age 65, regardless of membership service; or Any age, 30 years of membership service.
Hired on or after July 1, 2011	Age 65, 5 years of membership service; Age 70, regardless of membership service.

Early retirement:

Hired prior to July 1, 2011	Age 50, 5 years of membership service; or Any age, 25 years of membership service.
Hired on or after July 1, 2011	Age 55, 5 years of membership service.

Second Retirement (requires returning to PERS covered employment or PERS service)
Retire before January 1, 2016 and accumulate less than 2 years additional service credit, or
Retire on or after January 1, 2016 and accumulate less than 5 years additional service credit:

- A refund of member's contributions plus regular interest (currently 2.02% effective July 1, 2018);
- No service credit for second employment;
- Start the same benefit amount the month following termination; and
- GABA starts again in the January immediately following the second retirement.

Retire before January 1, 2016 and accumulate at least 2 years of additional service credit:

- A recalculated retirement benefit based on provisions in effect after the initial retirement; and
- GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.

Retire on or after January 1, 2016 and accumulate 5 or more years of service credit:

- The same retirement as prior to the return to service;
- A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
- GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

Monthly Benefit Formula
Members hired prior to July 1, 2011

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007;
- 1.5% for members hired between July 1, 2007 and June 30, 2013.
- Members hired on or after July 1, 2013:
  - 1.5% for each year PERS is funded at or above 90%;
  - 1.5% is reduced by 0.1% for each 2.0% PERS is funded below 90%; and
  - 0.0% whenever the amortization period for PERS is 40 years or more

OVERVIEW OF CONTRIBUTIONS

The State Legislature has the authority to establish and amend contribution rates. Member and employer contribution rates are specified by Montana Statute and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.

Currently, plan members are required to contribute 7.90% of members' compensation. By statute, the members' 7.90% contributions are temporary and will be decreased to 6.90% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

As the employer, the State was required to contribute 8.87% of members' compensation for the fiscal year. Effective July 1, 2014, the employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contributions rates. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

PERS received 100% of the required contributions from the Fund in the amount of $14 thousand for the fiscal year.

ACTUARIAL ASSUMPTIONS – DBRP

The Total Pension Liability (TPL) used to calculate the NPL as of the fiscal year is based on the results of an actuarial valuation date of June 30, 2019 and applying standard roll forward procedures. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the last actuarial experience study, dated May 5, 2017 for the six-year period July 1, 2011 to June 30, 2016. Among those assumptions were the following:

• Investment Return (net of admin expense)	7.34%
• Admin Expense as a % of Payroll	0.30%
• General Wage Growth*	3.50%
*includes inflation at	2.40%
• Merit Increases	0.00% to 4.80%

- Guaranteed Annual Benefit Adjustment (GABA)
  After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.
  - 3.0% for members hired prior to July 1, 2007;
  - 1.5% for members hired between July 1, 2007 and June 30, 2013
  - Members hired on or after July 1, 2013:
    - 1.5% for each year PERS is funded at or above 90%;
    - 1.5% is reduced by 0.1% for each 2.0% PERS is funded below 90%; and
    - 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back 1 year.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Mortality Tables with no projections.

CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

The following changes in assumptions or other inputs were made that affected the measurement of the TPL:

- The discount rate was lowered from 7.65% to 7.34%;
- The investment rate of return was lowered from 7.65% to 7.34%; and
- The inflation rate was reduced from 2.75% to 2.40%.

CHANGES IN BENEFIT TERMS

There have been no changes in benefit terms since the previous measurement date.

CHANGES IN PROPORTIONATE SHARE

There were no changes between the measurement date of the collective NPL and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

DISCOUNT RATE - DBRP

The discount rate used to measure the Total Pension Liability was 7.34%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's

funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributed 0.10% of the salaries paid by local governments and 0.37% paid by school districts. In addition, the State contributed a statutory appropriation from the general fund.

Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

TARGET ALLOCATIONS – DBRP

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the Plan. The long-term rate of return as of June 30, 2020, was calculated using the average long-term capital market assumptions published in the *Survey of Capital Market Assumptions 2020 Edition* by Horizon Actuarial Service, LLC, yielding a median real rate of return of 4.94%. The assumed inflation is based on the intermediate inflation of 2.4% in the *2020 OASDI Trustees Report* by the Chief Actuary for Social Security to produce 75-year cost projections. Combining these two results yields a nominal return of 7.34%. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2020, are summarized as follows:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return Arithmetic Basis
Cash	2.0%	0.11%
Domestic Equity	30.0%	6.19%
International Equity	16.0%	6.92%
Private Investments	14.0%	10.37%
Natural Resources	4.0%	3.43%
Real Estate	9.0%	5.74%
Core Fixed Income	20.0%	1.57%
Non-Core Fixed Income	5.0%	3.97%
Total	100.0%	

SENSITIVITY ANALYSIS – DBRP

The following presents the employer's sensitivity of the NPL to the discount rate in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.34%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate (in thousands).

Net Pension Liability Sensitivity Analysis	1.0% Decrease (6.34%)	Current Discount Rate (7.34%)	1.0% Increase (8.34%)
Enterprise Fund	$ 556	$ 404	$ 276

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - DBRP

MPERA prepared financial statements using the accrual basis of accounting. The same accrual basis was used for the purposes of determining the NPL, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, the Fiduciary Net Position, and additions to/deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due, and employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America and applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

The State of Montana, as the non-employer contributing entity, paid to the Plan, additional contributions that qualify as *special funding*. Those employers who received *special funding* are all participating employers. The State contributed a Statutory Appropriation from the General Fund of $33,951,150 for all participating employers.

Per Montana law, state agencies and universities paid their own additional contributions. The Fund paid contributions are *not* accounted for as special funding for state agencies and universities but are reported as employer contributions.

As of Measurement Date	NPL as of 6/30/20 (in thousands)	Percent of Collective NPL as of 6/30/20	Change in Percent of Collective NPL
Fund Proportionate Share	$ 404	.02%	< .001%
State of Montana Proportionate Share associated with Employer	123	< .001%	< (-.001%)
Total	$ 527	.02%	< .001%

DEFERRED PENSION INFLOW / OUTFLOW - DBRP

At year end, the Fund recognized a deferred outflow of resources of $95 thousand for expected versus actual experience and changes in assumptions. The pension deferred inflows were $29 thousand, which is related to the net difference between projected and actual earning on pension plan investments.

Amounts reported as deferred outflows of resources related to pensions resulting from the Fund's contributions after the measurement date will be recognized as a reduction of the NPL in the year ended June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows:

For the Measurement Year ended June 30:	**Recognition of Deferred Outflows/Inflows in future years as an increase/(decrease) to pension expense** (in thousands)	
2021	$	(4)
2022		23
2023		12
2024		9
Thereafter		0

THE PERS-DEFINED CONTRIBUTION RETIREMENT PLAN (DCRP)

The DCRP is a defined contribution multiple-employer plan. DCRP benefits are based on eligibility and individual account balances. Participants are immediately vested in their own contributions and attributable income. DCRP Participants are vested after five years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per statute. Forfeitures are used to cover the administrative expenses of the DCRP. At the plan level for the measurement period ended June 30, 2021, the DCRP employer did not recognize any Net Pension Liability (NPL) or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 329 employers that have participants in the DCRP totaled $775 thousand.

10. OTHER POST EMPLOYMENT BENEFITS (OPEB)

GENERAL INFORMATION ABOUT THE STATE EMPLOYEE GROUP BENEFITS (SEGB) OPEB PLAN

Plan description. The Board participates in the State's defined benefit OPEB plan, the SEGB. The plan provides optional post employment health care benefits in accordance with Section 2-18-704, MCA. This coverage applies to the following employees and dependents who elect to continue coverage and pay administratively established contributions: 1) employees and dependents who retire under applicable retirement provisions and 2) surviving dependents of deceased employees. The SEGB OPEB plan is a single employer defined benefit OPEB plan administered by statute by the Montana Department of Administration (DOA) Health Care and Benefits Division (HCBD). The Fund is reported within the primary government for reporting purposes.

SEGB is not administered through a trust. There are no assets accumulated to offset the total OPEB liability. The State funds the benefits on a pay-as-you-go basis. Section 2-18-8, MCA gives the authority for establishing and amending the funding policy to the DOA.

The healthcare OPEB plan allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of total OPEB liability in the related financial statements and note disclosures. Reported contributions are not a result of direct funding to the plans or for associated liabilities but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans.

Benefits provided. A retiree may continue coverage with the SEGB if the retiree is eligible to receive a monthly retirement benefit under their particular retirement system at the time of leaving active employment and elect to start medical coverage within 60 days of leaving employment. The Board's employees retire under either the DBRP or the DCRP.

Non-Medicare retirees may continue the core plan, which includes medical, dental, life insurance and vision benefits. Vision coverage is optional. Medical, dental, and vision coverage is optional for dependents. Medicare eligible retirees may continue medical coverage, with dental and vision being optional. Medical, dental, and vision coverage is optional for dependents of Medicare eligible retirees. Medicare eligible retirees must enroll in both Part A and Part B Medicare coverage.

A retiree may continue coverage for a spouse who does not work for the State. If coverage is not continued, the spouse may only be added when the spouse loses eligibility for other coverage. If the retiree and spouse both work for the State, the retiree may elect to be covered under the working spouse and retains the right to exercise the transfer option. Dependent medical or dental coverage can only be continued if the retiree continues medical and/or dental coverage.

A surviving spouse may elect to continue their medical, dental, or vision coverage until Medicare age, at which time they will be offered COBRA and no longer be eligible for the plan. For surviving spouses already of Medicare age, they will be offered COBRA and lose eligibility under the plan at the end of the offering month.

Board staff and dependents are eligible to receive medical and dental health care through the SEGB. The State funds claims on a pay-as-you-go basis. Montana DOA established premiums vary depending on family coverage and eligibility. Agencies contribute $1,054 per month per eligible current State employee in addition to the employee's monthly contribution as shown below:

Premiums	Calendar Years 2020 - 2021
Medical	$30.00 - $327.00
Dental (optional)	$0.00 - $28.90
Vision Hardware (optional)	$7.64 - $22.26

Retiree Premiums. DOA-established retiree premiums vary depending on family coverage and Medicare eligibility. Per statute, retirees are responsible for their premiums and State agencies do not contribute an employer's share. As of December 31, 2020, the State OPEB Plan's administratively established retiree medical contributions vary between $457.00 and $2,172.00 per month depending on coverage selected. Administratively established dental contributions vary between $41.10 and $70.00 per month, and vision hardware contributions vary between $7.64 and $22.26 per month, depending on coverage selected. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-

network providers. Once retiree members become Medicare eligible, the plan automatically processes claim reimbursement as the secondary insurer, even if the member is not enrolled in Medicare. Spouses, unmarried dependent children, and surviving spouses are also eligible for coverage.

TOTAL OPEB LIABILITY

The Board's total OPEB liability of $45 thousand is approximately 0.03% of the total primary government OPEB liability of $143.3 million as measured on June 30, 2021. The total OPEB liability was determined by an actuarial valuation as of December 31, 2020, rolled forward to the measurement date of March 31, 2021.

Basis of accounting. The OPEB liability is reported on an accrual basis. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable.

Actuarial assumptions. The total OPEB liability in the actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Contributions	**Retiree / Surviving Spouse**	**Spouse**
(weighted average)		
Before Medicare eligibility	$15,072	$6,908
After Medicare eligibility	5,484	4,820
Actuarial valuation date	December 31, 2020, rolled forward to March 31, 2021	
Discount rate	2. 23%	
Projected payroll increases	2.50%	
Actuarial cost method	Entry age normal funding method	
Amortization method	Open basis	
Asset valuation	Not applicable since no assets meet the definition of plan assets under GASB 75	
Participation	Future retirees 40% Future eligible spouses 70%	
Marital status (at retirement)	70%	

Mortality - Health
Healthy mortality is assumed to follow the RP2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.

Mortality – Disabled
Disabled mortality is assumed to follow the RP2000 Combined Mortality Table with no projections.

Changes in actuarial assumptions and methods since last measurement date:

- Interest/discount rate was based on the average of multiple March 31, 2021 municipal bond rate sources.

Changes in benefit terms since last measurement date: None.

Healthcare cost trend rates

SEGB assumed projected healthcare cost trend rates at 6.0% for the 2020 Plan Year, decreasing to 3.8% by the 2077 Plan Year and beyond. For Prescription Drug Benefits, SEGB assumed a 9% rate for the 2020 Plan Year decreasing also to 3.8% for the 2077 Plan Year and beyond, with an average of 6.0% for all years.

Retiree Contribution Increases

Retiree Contribution Increases to SEGB were assumed to be 0% for retirees and surviving spouses in the 2021 Plan Year and with varying increases and decreases until settling at 3.8% in the 2078 Plan Year.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Board, as well as what the Board's total OPEB liability would be if it were calculated using a discount rate (DR) that is 1-percentage-point lower (1.23%) or 1-percentage-point higher (3.23%) than the current discount rate (in thousands):

	1% Decrease (1.23%)	Discount Rate (2.23%)	1% Increase (3.23%)
Total OPEB liability	$57	$45	$36

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Board, as well as what the Board's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates (in thousands):

	Healthcare Cost Trend Rates		
	1% Decrease (5.0%)	Healthcare Cost Trend Rate (6.0%)	1% Increase (7.0%)
Total OPEB liability	$36	$45	$59

OPEB EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

For the year ended June 30, 2021, the Board recognized OPEB expense of $3 thousand. On June 30, 2021, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 5
Changes of assumptions and other inputs	34	5
Total	$ 34	$ 10

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as $2 thousand for each year during 2022 – 2026 and $15 thousand thereafter.

TOTAL PROJECTED CLAIMS COST

To determine total projected costs for the valuation period, an analysis of claims experience for the medical and prescription drug plans was completed based on information provided by the State of Montana. For purposes of the valuation, all medical plans are grouped together, and all prescription drug plans are grouped together.

Medical and prescription drug claims were based on the most recent contribution rate development calculations for retirees, utilizing the most current claims cost experience and adjusting for the following:

- A factor to trend historical claims from the midpoint of the experience periods to the midpoint of the valuation base period.
- An adjustment to restate paid claims on an incurred basis, incorporating actual paid claims data for historical periods and best estimates of future claim lags based on State of Montana historical data. Separate adjustments were made for medical and prescription drugs.
- Benefit adjustments to account for changes in plan design components between the experience periods and the valuation base period.
- Vendor contract adjustments to reflect changes in underlying discounts, fees, and financial arrangements.

Administrative costs are then added to the medical claims. The result is total projected costs for the period January 1, 2020 to December 31, 2020, for the two plans.

GENERAL INFORMATION ABOUT THE DCRP OPEB PLAN

Per statute, participants that choose the DCRP retirement system are covered by the DCRP long-term disability plan. The disability plan is a multiple employer plan that provides disability benefits to plan members who are vested in the plan and are currently ineligible for retirement. A separate trust has been established for purposes of providing disability benefits to members and is accounted for as a fiduciary fund of the State of Montana. The assets are held in a trust capacity for the beneficiaries. The MPERA issues publicly available annual reports which include financial statements and required supplemental information for the plan. Those reports may be obtained

online (http://mpera.mt.gov) or by contacting the MPERA at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131.

11. NON-PENSION EMPLOYEE BENEFITS PLANS

DEFERRED COMPENSATION PLAN

The Board's permanent employees are eligible to participate in the State's deferred compensation plan. The compensation deferred is not available to employees until separation from State service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, Chapter 50, Montana Code Annotated (MCA). Assets of the deferred compensation plan are required to be held in trust, custodial accounts, or insurance company contracts for the exclusive benefit of participants and their beneficiaries.

12. SUBSEQUENT EVENTS

Since June 30th, the Board made additional commitments to fund loans from the INTERCAP loan program in the amount of over $13.8 million. Refer to Note 8 – INTERCAP Program Commitments for further detail.

Two outstanding QZAB bonds matured and were paid off on August 18, 2021, in the amount of $1.45 million. Refer to Note 7 – Conduit (No Commitment) Debt for further detail.

On November 30, 2021, the Board adopted Resolution No. 249 entitled: "Resolution of the Board of Investments of the State of Montana relating to its annual adjustable rate Municipal Finance Consolidation Act Extendable Bond (INTERCAP Loan Program), Taxable Series 2022, fixing the terms and conditions of the INTERCAP Bond, and authorizing the sale and issuance of the INTERCAP Bond to the Unified Investment Program." Refer to Note 4 – Bonds Payable for further detail.

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

PENSION LIABILITY AS AN EMPLOYER ENTITY

RSI regarding the pension information is as follows. As additional years of data are available, a total of 10 years will be presented. For further details, see Note 10- Pensions.

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST 10 FISCAL YEARS
(in thousands except percentages)

	2021	2020	2019	2018	2017	2016	2015
The fund's proportion of NPL	0.02%	0.02%	0.02%	0.02%	0.03%	0.02%	0.02%
The fund's proportionate share of NPL	$ 404	$ 269	$ 345	$ 419	$ 385	$ 291	$ 245
State of Montana's proportionate share of NPL associate with the fund	$ 123	$ 84	$ 111	$ -	$ -	$ -	$ -
Employer's Covered Payroll	$ 161	$ 173	$ 167	$ 262	$ 307	$ 241	$ 220
The fund's proportionate share of NPL as a percent of Covered Payroll	159.05%	128.12%	128.25%	158.88%	143.92%	121.24%	111.22%
Plan Fiduciary Net Position as a Percent of Total Pension Liability	68.90%	73.85%	73.47%	73.75%	74.71%	78.40%	79.87%

SCHEDULE OF CONTRIBUTIONS
LAST 10 FISCAL YEARS
(in thousands except percentages)

	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	$ 14	$ 15	$ 14	$ 22	$ 51	$ 21	$ 19
Contributions made	$ (14)	$ (15)	$ (14)	$ (22)	$ (51)	$ (21)	$ (19)
Contribution deficiency/(excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Employer's Covered Payroll	$ 161	$ 173	$ 167	$ 262	$ 307	$ 241	$ 220
Contributions as a percent of Covered Payroll	8.86%	8.70%	8.56%	8.39%	8.47%	8.77%	8.83%

CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

The following Actuarial Assumptions were adopted from the June 30, 2019 actuarial valuation:

- General Wage Growth 3.50%;
- Investment Rate of Return 7.65%, includes inflation at 2.75%;
- Merit salary increase 0% to 8.47%;
- Asset valuation method: Four-year smoothed market;
- Actuarial cost method: Entry age Normal;
- Amortization method: Level percentage of payroll, open;
- Remaining amortization period: 30 years;
- Mortality (Healthy members): For Males and Females: RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year;
- Mortality (Disabled members): For Males and Females: RP 2000 Combined Mortality Table, with no projections; and
- Admin Expense as % of Payroll 0.30%

Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount will vary from year to year based on the prior year's actual administrative expenses.

2017 Changes in benefit terms:
Effective July 1, 2017, the following benefit changes were made:

- The interest rate credited to member accounts increased from .25% to .77%
- Lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit

Working Retiree Limitations – for PERS
Effective July 1, 2017, if a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment, general contractor overhead costs are excluded from PERS working retiree limitations.

Refunds:

1. Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
2. Terminating members with accumulated contributions between $200 and $1,000 who wish to rollover their refund must do so within 90 days of termination of service.
3. Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

OTHER POST EMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

Retirees are allowed to participate, as a group, at a rate that does not cover all of the related costs. As additional data is available, a total of 10 years will be presented. For further details, see Note 10 – OPEB.

SCHEDULE OF TOTAL OPEB LIABILITY AND RELATED RATIOS
LAST 10 FISCAL YEARS
(in thousands except percentages)

	2021	2020	2019	2018
Proportion of total OPEB liability	0.03%	0.03%	0.04%	0.04%
Proprtionate share of total OPEB liability	$ 45	$ 14	$ 20	$ 19
Covered employee payroll	$ 207	$ 207	$ 276	$ 253
Total OPEB liability as a percentage of covered payroll	21.38%	6.86%	7.93%	7.47%

Notes to Schedule:

No assets are set aside to fund the OPEB benefits. The State funds the benefits on a pay-as-you-go basis from general assets.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Unified Investment Program and the Enterprise Fund Program of the Montana Board of Investments, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the board's financial statements, and have issued our reports thereon dated December 7, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the board's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control. Accordingly, we do not express an opinion on the effectiveness of the board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters
As part of obtaining reasonable assurance about whether the board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 7, 2021

Montana Board of Investments

Board Response

MONTANA
BOARD OF INVESTMENTS

December 21, 2021

Angus Maciver, Legislative Auditor
Legislative Audit Division
Room 160 State Capitol
PO Box 201705
Helena MT 59620-1705

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LEGISLATIVE AUDIT DIV.

Mr. Maciver:

I am in receipt of the Financial-Compliance Audit dated January 2022 for the fiscal year ending June 30, 2021, issued by the Legislative Audit Division. There are no recommendations.

Thank you to Jessica Curtis, Shandell VanDonsel, Mary Currin, Steven Althoff, and Alexa O'Dell for their knowledge and professionalism during the audit process.

Sincerely,

DAN VILLA
Executive Director

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